Austria	[illegible]	Indonesia	[illegible]	Pakistan	[illegible]
Bahrain	[illegible]	Israel	[illegible]	Philippines	[illegible]
Belgium	[illegible]	Italy	[illegible]	Poland	[illegible]
Cyprus	[illegible]	Jordan	[illegible]	Portugal	[illegible]
Czech	[illegible]	Korea	[illegible]	Qatar	[illegible]
Denmark	[illegible]	Kuwait	[illegible]	S.Arabia	[illegible]
Egypt	[illegible]	Lebanon	[illegible]	Singapore	[illegible]
Finland	[illegible]	Lux	[illegible]	Spain	[illegible]
France	[illegible]	Malta	[illegible]	Sweden	[illegible]
Germany	[illegible]	Morocco	[illegible]	Switz	[illegible]
Greece	Dr250	Neth	Fl 3.50	Thailand	Bt50
Hungary	Ft192	Nigeria	Naira28	Tunisia	Din1.000
Iceland	IKr190	Norway	NKr15.00	Turkey	L3000
India	Rs30	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

Newspaper of the Year

Monday March 16 1992

D 8523A

BRAZIL

Price wars – symbols of economic reform

Page 17

World News

Burmese army steps up assault on rebel forces

Fierce fighting continued in eastern Burma as the army stepped up its attacks against ethnic minorities on the country's borders. Government forces threatened the rebel base of Manerplaw on the Thai frontier, prompting concern over an exodus of refugees. Page 18

N Sea helicopter crash
Eleven men are believed to have died after a UK helicopter crashed in a North Sea blizzard while ferrying workers from a Shell oil platform to an accommodation vessel 200 yards away. There were six survivors. Page 10

New 'quake hits Turkey
A second large earthquake struck eastern Turkey as the death toll from the tremor two days earlier reached 320, with another 150 feared dead. There were no reports of casualties in the latest incident. Page 5

Jamaican premier to quit
Jamaican prime minister Michael Manley, 67, said he would resign on March 28 because of poor health, two years before the end of his third term in office. Page 18

Italian air strike off
The Italian government invoked special powers to cancel today's proposed strike by air traffic controllers. Strikes on Friday and Saturday badly disrupted flights. Page 4

German army plea
Germany's armed forces chief General Klaus Naumann urged the government to lift a ban on deploying troops outside Nato so German forces can join UN military missions.

Karabakh ceasefire plan
Iran has brokered a draft ceasefire agreement between Armenia and Azerbaijan over the disputed enclave of Nagorno-Karabakh, the Iranian news agency IRNA said. The plan, signed by Armenian and Azerbaijani deputy foreign ministers, proposes a ceasefire, the exchange of prisoners and efforts to remove regional economic sanctions.

Cresson support falls
French prime minister Edith Cresson's popularity sank to a new low, just a week before regional elections. Only 19 per cent of voters approve of her, compared with 21 per cent last month, according to a newspaper poll. Page 2

Peru massacre
Shining Path guerrillas in Peru rounded up 10 people including a local mayor, council officials and neighbourhood leaders and killed them in the main square of the Andean town of Soraya.

West Bank clash
Israeli forces shot dead three Palestinian men and wounded another in a clash at a refugee camp in the occupied West Bank.

Spanish drugs haul
Spanish police seized 122kg of heroin from a truck on the border with France in the biggest haul of the drug ever made in Spain. Earlier, 6-7 tonnes of hashish were found hidden on a ship in Barcelona.

Geneva bomb blast
A bomb seriously damaged a sewage pumping station in Geneva, causing thousands of gallons of untreated water to leak into the river Rhone.

World Cup cricket
New Zealand beat England by seven wickets in the World Cup cricket match in Wellington. In other games, South Africa had a six wickets win over India and Pakistan beat Sri Lanka by four wickets.

Business Summary

Lonrho faces criticism by large shareholders

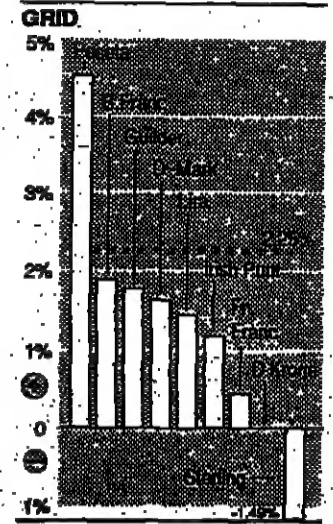
Some of Lonrho's biggest shareholders are calling for change after a consultancy report criticised the international trading conglomerate.

Pensions Investment Research Consultants, which advises pension funds with investments in Lonrho, urged the appointment of four "high-calibre" non-executives, election of all directors and the creation of an independent pay committee. Lonrho considers PIRC unrepresentative of its shareholders. Page 19

EUROPEAN Monetary System: The D-Mark firmed within the EMS, helped by gains against the dollar. The peseta gave ground to the mark, allowing sterling to stay just within its peseta band after election jitters and budget disappointment put it under pressure.

EMS March 13, 1992

GRID



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

GROUP OF THIRTY, US think tank, is to review risks to world financial markets from the increasing use of derivative instruments such as futures, options and swaps. Page 19

CHRYSLER's board met amid speculation that the US auto maker would name Robert Eaton, General Motors' Europe president, to succeed Lee Iacocca as chairman. Page 21

ROCKWELL International, US aerospace and automotive group, is to take a $1.5bn charge against net income to cover a switch to a new accounting standard for retired employees' health benefits. Page 21

BANK OF JAPAN came under fresh pressure from politicians for a cut in interest rates to boost the economy and revive the stock market. Page 5

SAN PAOLO, Italian state-owned bank, is being part-privatised with the L1,525bn ($1.24bn) flotation today of 20 per cent of its shares. Background, Page 19

BANK lending: EC finance minister are poised to agree Community-wide standards to prevent banks collapsing after lending too much to individual clients. Page 4

PETROCON, UK engineering and surveying group, declared final its bid for Sheffield-based engineer James Wilkes. The offer, valuing Wilkes at around £28m ($49.3m), is of 13 Petrocon shares for three Wilkes shares. Page 20

SLAUGHTER and MAY, London solicitors, topped the league of the UK's most profitable UK lawyers last year, according to Legal Business magazine. Page 9

FT No. 31,710

US politics and the Chicago float factor

By Jurek Martin in Chicago

IT IS perfectly clear who could win the Democratic party's presidential primary in Illinois tomorrow. His name is Pat O'Connor, he comes from Chicago's 40th ward and he would win, if he were running, because he had easily the largest float in Saturday's St Patrick's Day parade through the middle of the windy, frozen city and over a bright green river.

National politicians are not really welcome at this public, but essentially private, celebration of Irishness by Chicago's policemen, plumbers, pipefitters and social club members.

The three Democratic candidates stayed away, and not only because none can afford pneumonia at this stage. Pat Buchanan, whose name fits, was going to appear but spent the morning with Ukrainians instead.

Most, however, put in time at informal neighbourhood parades yesterday.

Their supporters were out working the crowds, though hopelessly outnumbered by those running for local office. By virtue of the number of placards seen and leaflets collected, Bill Clinton will beat Paul Tsongas here easily, with Jerry Brown nowhere, but this is hardly a scientific measurement.

More reliable, but not infallible, was a weekend Chicago Sun-Times poll which gave the governor of Arkansas 48 per cent, the former senator from Massachusetts 21 per cent and the former governor of California a meagre 7 per cent. It also had President George Bush overwhelming Mr Buchanan by 79-15 per cent on the Republican side.

The Mason-Dixon poll in neighbouring Michigan, which also votes tomorrow, told a similar tale, with Mr Clinton at 48 per cent, Mr Tsongas 22 per cent and Mr Brown 11 per cent. Mr Clinton's pollster added that he thought Mr Brown could relegate Mr Tsongas into third place in the state. Mrs Nikki Tsongas, encountered at a Greek restaurant in Chicago on Saturday night, would have none of this gloomy prognosis.

The big industrial cities of Illinois and Michigan have long been known for their political machines, many union-based. Certainly Mr Clinton has been picking up far more formal endorsements than his opponents, but there is doubt these days as to how valuable these really are.

The Chicago Tribune reckoned yesterday that of the city's 50 wards, only about eight have machines consistently capable of delivering the

Continued on Page 18

Fear and optimism, Page 4

British big business fearful of Labour win in election

By Philip Stephens, Political Editor, in London

BRITAIN'S business leaders want a decisive victory for the ruling Conservative party in next month's general election, fearing that a win for the Labour opposition would lead to a falling pound and higher borrowing costs.

In a survey of executives in the country's top 500 companies conducted for the Financial Times by Mori, an opinion poll compiler, seven out of 10 predict that a Labour victory would be followed by a devaluation of sterling within the exchange rate mechanism. Three-quarters believe interest rates would rise.

Some eight out of 10 of the executives say also that an inconclusive election resulting in a coalition government would be bad for country. A slightly smaller proportion – six out of 10 – add that such an outcome would also damage their business.

The business leaders are not, however, entirely happy with the present government. Instead their responses underline deep concern about the impact of the recession. Only 29 per cent accept the Conservative claim that their re-election would speed up economic recovery.

Nearly two-thirds believe that prime minister John Major's re-election would make little difference to the pace of any upturn. Only 49 per cent say they are satisfied "with the way the government is running the country".

But the clearest message of the survey – published on the day Labour plans to unveil a range of measures to boost industrial investment and training – is that in the highly charged atmosphere of a general election, the business community is unwilling to give public backing to Labour's economic strategy.

Labour leader Mr Neil Kinnock and shadow chancellor Mr John Smith have repeatedly emphasised that a Labour government would not devalue sterling within the ERM. But the executives appear to have concluded that that they would be unable to resist speculation against the pound. On overall economic management, 87 per cent say they prefer the Conservatives against only 3 per cent convinced by the alternatives offered by the main opposition party.

Election latest, Pages 6 and 7
Labour's tax cuts, Page 18

Report may hit prospects for debt rescheduling

World Bank criticises Nigeria

By Michael Holman, recently in Lagos

NIGERIA'S economic management "lacks transparency and accountability", according to an unpublished World Bank report which is likely to reinforce concern about official corruption and set back the country's prospects for rescheduling external debts of $30bn.

The report, Public Expenditure Management, is based on a review conducted early in 1991. It is under discussion with the military government of President Ibrahim Babangida, who seized power in a palace coup in 1985.

It shows that the bank suspected the authorities of under-reporting oil earnings in 1990, when prices were boosted by the Gulf war. The report says the receipts were some $2bn higher than the bank had forecast.

However, says the report, "attempts to account for the proceeds from oil production in 1990 produced a shortfall of foreign exchange inflows reflected in the official central bank cashflow of around $2.1bn, of which only $0.6bn can be explained by the two continuing dedication accounts". These are special accounts for project and other expenditures.

A World Bank official would not say last week whether this and other "inconsistencies" in government accounts had been resolved.

Provisions for external debt servicing might account for the discrepancy, but the bank should have been informed of receipts set aside for that purpose. The official described the report as an "internal document" and would not discuss it further.

The government has not responded to a request for comment. In June, it maintained that all earnings could be accounted for, partly through debt-service payments. It also deported the Financial Times Lagos correspondent following his reports on the size and allocation of the windfall.

Diplomats in Lagos said last week that full and accurate details of government accounts had yet to emerge.

Pressure to spend the 1990 windfall led to a "breakdown in fiscal and monetary discipline", the report says. It calculates that government spending "outside the normal accounting and budgetary mechanism" in 1989 and 1990 exceeded the 1990 budget, excluding debt-servicing.

The calculation assumes that the "inconsistencies" detected represent actual expenditure. The report expresses concern about "large scale" spending of oil revenue "outside the purview of statutory controls".

Continued on Page 18

Nigeria survey, Section III

A farmer grapples with police during a visit by South African president F.W. de Klerk to Nylstroom to urge support for the government in tomorrow's referendum. Page 18

Pressure grows for North American free trade pact

By George Graham in Washington

THE LEADERS of the US, Canada and Mexico are due to hold a three-way telephone conference today in an attempt to clear some of the remaining obstacles to a North American Free Trade Agreement (Nafta).

The conversation between President George Bush of the US, President Carlos Salinas de Gortari of Mexico and Mr Brian Mulroney, prime minister of Canada, comes amid mounting pressure for a political decision to conclude a deal.

The Nafta talks themselves appear to be close to a breakthrough, according to Washington trade specialists, although differences remain over energy, agriculture and cars among other things. Corporate advisers to the negotiators have been told that something "could break soon".

However, negotiators fear progress towards an agreement could be complicated by political considerations, if candidates opposing Nafta make a strong showing in primary elections in the industrial states of Michigan and Illinois tomorrow. Mr Bush's right-wing challenger in the Republican ballot, Mr Patrick Buchanan, has espoused protectionism as a central issue in his campaign.

In Michigan, car workers and other unionised labour are fiercely hostile to Nafta, which they believe would result in the transfer of US manufacturing jobs to lower wage Mexican factories. The two frontrunners for the Democratic presidential nomination, Governor Bill Clinton of Arkansas and former Senator Paul Tsongas of Massachusetts, are broadly in favour of the Nafta talks, but their challenger, former Governor Jerry Brown of California, has adopted the issue in his quest for working class votes.

Mr Brown has attacked the "fast-track" authority by which Congress allowed the administration to negotiate a Nafta deal which it could not then amend.

Mr Bush, meanwhile, defended the Nafta talks in a campaign trip to Michigan. "I do not accept the wisdom of some that says that a free trade agreement is going to result simply in an export of jobs. It is not going to do that, and I believe that we ought to keep pressing for it. I don't care what the politics of it are," he said in a speech to the Economic Club of Detroit.

Some of the president's campaign advisers are less certain about the wisdom of pressing ahead with Nafta. Some officials believe that it would be dangerous to conclude either Nafta or a Gatt multilateral trade agreement, either of which would face opposition in Congress and might be difficult to ratify this year.

The Nafta issue is a two-edged sword. The prospect of free trade with Mexico is enthusiastically welcomed in southwestern states like Texas, but generally unpopular in old industrial states like Michigan.

CONTENTS

THE MONDAY INTERVIEW

A blend of skill and serendipity has seen Mr Minoru Makihara rise from the shrimp import division of Japan's largest industrial group, Mitsubishi Corporation, to become its chairman from June. Page 34

FT SURVEYS THIS WEEK

Oil rig, Owoba Field, Nigeria.

Nigeria
Risky path to reform.
See separate section.

Killing turns spotlight on Mafia political links

By Robert Graham in Rome

THE links between Italy's ruling Christian Democrats and the Mafia have become an important issue in the Italian election campaign following last week's assassination of Mr Salvatore Lima, the party's most influential politician in Sicily.

Magistrates believe the killers of Mr Lima, a European parliament deputy, were Mafia gunmen. But the motives are the subject of intense speculation.

The government maintains the killing was a deliberate attempt to disrupt the campaign for the April 5 election. Mr Giulio Andreotti, the prime minister, has also suggested the murder was an indirect attack on himself since Mr Lima was his pro-consul in Sicily.

Indeed, for the past three days Mr Andreotti has been on the defensive, justifying his friendship with Mr Lima and protecting the latter's good name against suggestions of links with the Mafia which are highly damaging to Mr Andreotti. The affair risks bringing under public scrutiny the long-standing Christian Democrat practice of relying on Mafia votes.

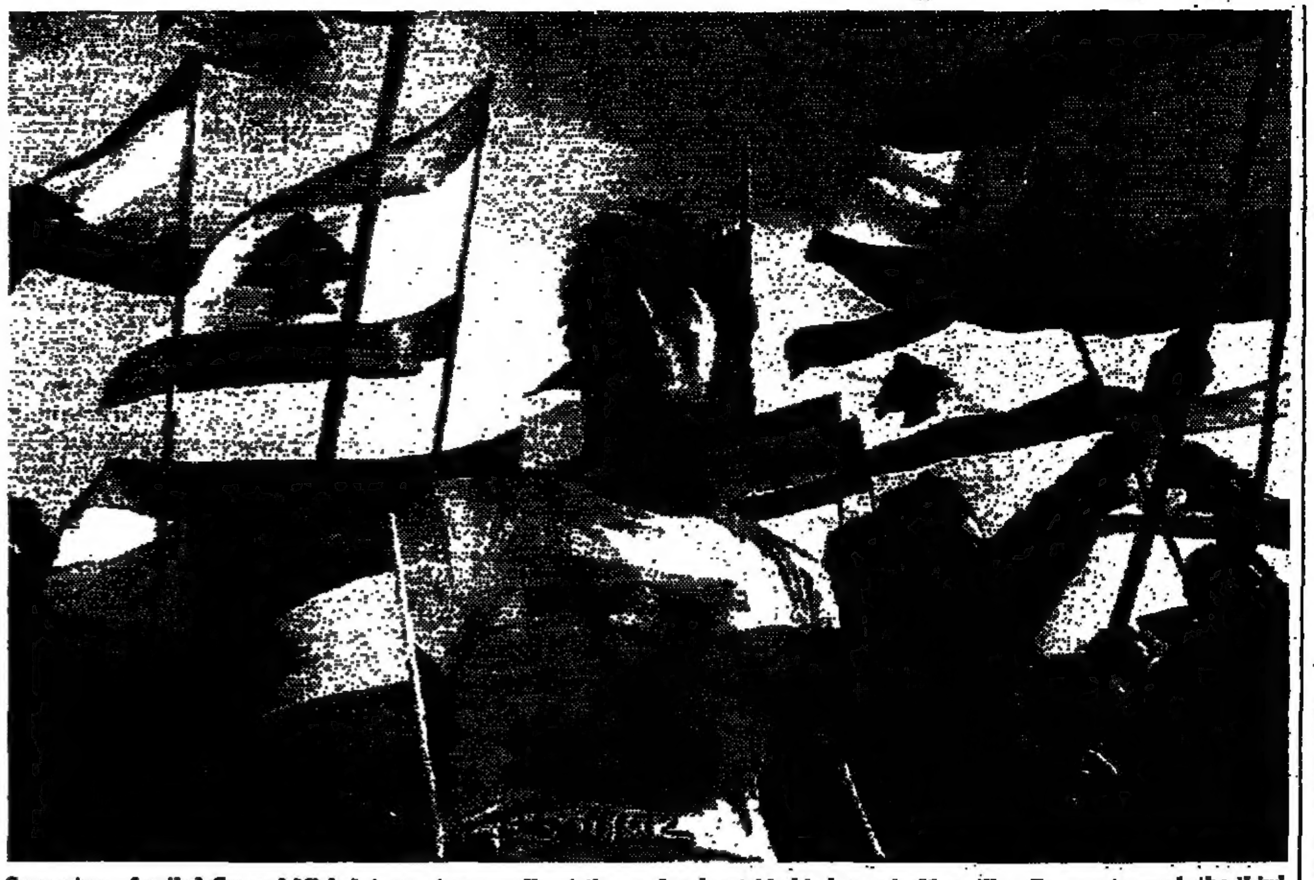
Another theory for the killing is that the leading Mafia families wanted to show their displeasure over the authorities' tougher attitude towards organised crime. Since the Second World War, the Mafia has been used behind the scenes in Sicilian politics by the Christian Democrats to help fight communism and to maintain the party's share of votes.

The collapse of communism has thus reduced the Mafia's political role, while the spread of organised crime throughout Italy has obliged the government to devote more energy and resources to fighting the Mafia.

But the most commonly held view is that Mr Lima was murdered in a Mafia settlement of accounts. He is alleged to have long acted as an intermediary in the murky world where politics and organised crime meet.

As a former mayor of Palermo, Mr Lima was responsible for the city's new urban plan in the Sixties which encouraged a speculative property boom dominated by the Mafia. At least four times in the Seventies, parliament unsuccessfully tried to investigate his links with the construction business and the Mafia. But he was the Christian Democrats' most effective operator in Sicily and had powerful friends like Mr Andreotti. Indeed, Mr Lima acted as if he was 'untouchable' and was one of the few politicians who felt a body-guard unnecessary.

Two magistrates are expected to leave shortly for the US to clarify Mr Lima's connections with the Mafia, questioning Mr Tommaso Buscetta and Mr Francesco Marino Mannoia. The latter are prominent former members of the Mafia, who have been co-operating both with the US and Italian authorities in return for immunity.



Supporters of exiled General Michel Aoun stage a rally at the weekend outside his house in Marseilles, France, to mark the third anniversary of the unsuccessful war he launched against Syrian domination of Lebanon

E German shipbuilding row forces resignation

By Our Foreign Staff

EAST Germany's shipbuilding crisis has claimed its first political victim, Mr Alfred Gomolka, prime minister of the economically troubled state of Mecklenburg-Vorpommern – adding to the woes of Chancellor Helmut Kohl's Christian Democrats (CDU).

Mr Gomolka is to resign today after losing a vote of confidence at the weekend within the CDU. He fell from favour after dismissing his justice minister, Mr Ulrich Born, who had criticised his support for the sale to western shipbuilders of three large shipyards.

The dispute centred on Mr Gomolka's unpopular move to privatise the shipyards, the region's main industry, by splitting them instead of merging them into one company as demanded by unions.

He is the third east German CDU prime minister to lose his post following the state leaders of Thuringia and Saxony-Anhalt. All were officials in the CDU when it was closely allied with the ruling Communist party.

The upset underlined the CDU's shaky organisation in the east, a region that is crucial to Chancellor Kohl's chances of retaining power in the next general election in 1994.

The CDU has lost a series of state elections in the west but still controls four of east Germany's five states.

Cresson's popularity sinks lower as regional polls loom

By William Dawkins in Paris

THE popularity of Mrs Edith Cresson, France's embattled prime minister, has sunk to a new low, just a week before regional elections.

Only 19 per cent of French voters approve of Mrs Cresson, compared with 21 per cent last month, according to a poll by Ifop, for Journal du Dimanche.

In the 10 months since she was installed by President François Mitterrand to give the government a new élan, Mrs Cresson's *unpopularity rating* has risen by 42 points to 59 per cent, according to yesterday's poll. Moreover, only 39 per cent of Socialist sympathisers still support her, down eight points on February, *said* the poll.

While not directly comparable, it is striking that Mrs Cresson's score now stands just a few percentage points ahead of the extreme right wing National Front (FN), whose anti-immigration policies have attracted support from 13.5 per cent of the electorate.

The Socialist government can draw little consolation from the fact that the same poll shows President Mitterrand has gained two points in the popularity ratings over the past month, to a mere 26 per cent.

The uproar surrounding the FN's election rallies – some of which have been banned by local authorities – intensified on Saturday night, when fighting broke out in the cathedral town of Chartres. FN supporters attacked left-wingers, who were protesting against a rally led by Mr Bruno Mégret, the *FN's deputy president. Police* arrested 10 FN supporters and were still holding two yesterday.

In another symptom of the protest vote, the Hunting, Fishing, Nature and Tradition party, which supports the right of all French citizens of any political colour to kill wild animals and birds, has been winning 5 per cent popularity scores in recent polls.

FRANCE'S economic downturn caused the government to overshoot its budget deficit by 63.2 per cent last year, the first time since 1987 that it has allowed the shortfall to increase, writes William Dawkins.

Final calculations of 1991 accounts show a FFr131.7bn (£13.5bn) deficit, against the FFr80.7bn envisaged in that year's budget, said the Finance Ministry. This brings the deficit to 1.9 per cent of gross domestic product, up from 1.4 per cent of GDP the previous year.

UN commander warns of perils ahead for troops

Peacekeepers fan out across Croatia

By Laura Silber in Pancevo, Serbia

THE commander of the United Nations peacekeeping forces in Yugoslavia yesterday warned of the perils awaiting his troops as advanced parties prepared to fan out to the war zones in the now independent republic of Croatia.

General Satish Nambiar of *India told some 340* peacekeepers at a barracks north of Belgrade: "We must bear in mind that we face a difficult and very delicate task of preserving peace." He was speaking after *eight* people were *killed* on *Saturday* and more than 20 wounded in fighting between Serbian and Croatian forces.

Gen Nambiar said he was aware that "some of you have been rushed to this at a very short notice. The reason for this was to bring in the force as soon as possible."

The UN Security Council has delayed the deployment of the bulk of the 14,000 peacekeepers pending its approval of a scaled-down budget, probably by April 1. The original figure of $634m (£360.2m) encountered opposition from the council.

Mr Fred Eckhart, the UN spokesman, said: "We have been given the yellow light, but not the green." Agreement on a new budget would allow for the despatch within three weeks of the remaining forces. British officials yesterday confirmed the "temporary postponement" of the despatch of some 1,200 British troops until after the UK general election next month.

But the UN peacekeepers on the ground yesterday appeared eager to begin their mission *despite the potential* dangers.

Col Robert Meille, the commander of a French infantry battalion, said: "We're confident of success because our mission is to assure all sides *that peace is the only alternative*". France is sending the largest single contingent.

Many of the peacekeprs arrived at the weekend. "We had received a three-day notice before coming here," said Col Yuri Levchenko of the Commonwealth of Independent States, bearing the insignia "Russia" on his fatigues. Col Levchenko, a veteran of the Afghan war, is heading a contingent of several hundred soldiers, the first ever force of UN peacekeepers from the former Soviet Union. They will be deployed in Croatia's eastern Slavonia.

THE Serb-dominated Yugoslav federal army yesterday handed over the main border crossing with Greece to the defence forces of the breakaway republic of Macedonia, Reuter reports from Belgrade.

The Macedonian forces took over the Gevgelija crossing and all other frontier posts to the east on the Greek border "in a dignified manner", the Belgrade-based Tanjug news agency said. The hand-over could deepen a crisis between Macedonia and Greece, which is blocking European Community recognition of the southern republic of about 2m Macedonian Slavs and ethnic Albanians.

Athens has refused to let people identifying themselves as Macedonians cross the border and accuses the republic of having territorial ambitions on Greece's northern *province of Macedonia. Gevgelija is the main crossing* point for Greek agricultural produce and other goods sent overland to EC partners.

Danes 'turning against treaty'

DANES, due to vote in a referendum on the Maastricht treaty on June 2, are turning against it, according to an *opinion* poll published at the weekend, writes Hilary Barnes in Copenhagen.

The Gallup poll showed 31 per cent against the treaty and 27 per cent in favour. Another 30 per cent were "don't knows", while 10 per cent had not heard of the referendum or said they would not vote. A similar poll published last month showed 39 per cent in favour and 34 per cent against.

Polish minister seeks IMF backing

By **Christopher Bobinski** in Warsaw

MR Andrzej Olechowski, Poland's finance minister, flew to Washington yesterday to seek support from the International Monetary Fund, the World Bank and the US government for his tough budget policies.

Mr Olechowski will seek IMF assurances that the budget, which foresees a Zl 65,500bn ($4.9bn) deficit amounting to 5 per cent of GDP, would form a basis on which to renegotiate the terms of Poland's $1.6bn three-year extended facility.

That was suspended last autumn when Poland's previous government failed to meet the Fund's performance criteria on its budget deficit and expansion of domestic credit.

Mr Olechowski will also be looking to the World Bank to ease the conditions under which $1bn of credit committed to Poland and due this year can be drawn.

Mr Olechowski needs international support when he returns on Wednesday to present the draft budget to a centre-right cabinet aghast at the prospect of spending cuts.

A more demanding test awaits the finance minister next month when he will present the budget to parliament. Mr Jan Olszewski, the prime minister, confirmed at the weekend that he was talking to Mr Tadeusz Mazowiecki, Poland's first non-communist prime minister and leader of the Democratic Union, about an alliance. This would strengthen the prospects of parliament passing the budget.

EC likely to agree aid terms for Russia

By **David Buchan** in Brussels

EC FINANCE ministers are today expected to agree on the need for Russia and other ex-Soviet republics to join the International Monetary Fund next month, and to settle repayments terms on past debt, before getting macro-economic aid from the west in general, and the Community in particular.

Mr Henning Christophersen, EC economic affairs commissioner, will present to the finance ministers' meeting a paper which details the economic plight of Russia and other members of the Commonwealth of Independent States.

It raises the question of whether the west should start organising for them a currency stabilisation fund, or a balance of payments loan.

The tentative nature of the Commission's proposal stems from the fact that the EC executive is split on the need for urgency in helping the CIS. Mr Frans Andriessen, external affairs commissioner, returned two weeks ago from a tour of several CIS republics convinced that IMF credits will be too little and will come too late to meet their immediate needs.

The Bush administration's difficulty in getting overall IMF funding increased in a US election year has reinforced, in Mr Andriessen's view, the need to start planning extra funding for Russia now.

But Mr Christophersen and the Commission's president, Mr Jacques Delors, appear to concur with the majority of EC governments in arguing that nothing must be done to undermine the IMF's leverage in negotiating reform programmes with Russia and the other CIS states. This was indeed the view of EC foreign ministers a fortnight ago.

Yet there is no disagreement within the Commission that additional help will be needed later this year. The Christophersen paper forecasts that while Russia's financing gap may only be $5bn this year – if western governments give it a breathing space on debt repayment – it may rise to $20bn in 1993.

Hopes for east-west electricity trade may be dashed

Austria's deal with the Ukraine is unlikely to herald similar energy barter deals, writes **Ian Rodger**

THE EUROPEAN MARKET

AN imaginative electricity deal concluded a few days ago between Austria and the Ukraine has once again raised hopes about the potential for large-scale trade in electricity between eastern and western Europe.

The Austrian electrical utility, Oesterreichische Elektrizitaetswirtshafts (OEL), is to buy up to 800m kW hours annually from Interenergo in Kiev for 15 years. The total value of the contract could rise to ASch7bn ($598.3m).

In return, the Ukrainian power authority has agreed to use part of the proceeds from the sale to buy Austrian equipment and know-how to improve control of emissions at three of its coal-fired power stations. It will also buy gas turbines to increase their efficiency.

This deal echoes another a year ago between Czechoslovakia and Germany. Then, Bayernwerk, a Munich utility, agreed to buy about 1,400MW of electricity from the Mochovce nuclear power station being built in western Slovakia.

Czechoslovakia has agreed to use the revenue from its sale to instal instruments and control systems supplied by Siemens to bring the plant up to western safety standards. Once the new plant is running, two older and more dangerous nuclear plants elsewhere in the country will be shut down, much to the relief of Germany and Austria.

These quasi-barter deals could become models for several others. It is generally agreed that all the nuclear power plants in the former Soviet Union and eastern Europe are in poor condition. Many are beyond repair and must be shut down and others will require massive investment to bring them up to western safety standards.

Mr Adolf Huttl, head of the KWU energy division of Siemens, said recently that it would cost DM12bn ($7.3bn) to renovate all of the 63 pressurised water reactors in the Soviet Union and eastern Europe. This excludes the 16 Chernobyl type reactors. Like most experts, Mr Huttl believes they are too badly designed to be worth repairing.

However, there are a number of practical obstacles to further large-scale barter deals. For one thing, most eastern European countries are net importers of electricity, and do not have surplus power to sell.

Some analysts have even raised their eyebrows over the Austria-Ukraine deal on these grounds. The Ukraine would appear to be in a worse supply position than some other east European countries because it faces the prospect of having to shut down the two remaining 1000MW units at Chernobyl.

The Austrians say they are confident of power deliveries under the contract because the Ukraine has so much other generating capacity, including four less dangerous pressurised water reactor (PWR) nuclear stations. Privately, they say they are counting on a substantial decline in domestic demand for power in the Ukraine in the next few years as industrial output there falls sharply.

There would also seem to be little potential for sales of electricity from western European countries to eastern ones, even assuming that the eastern countries could to pay for it.

Except for France, most western European countries have inadequate generating capacity for their own needs.

Moreover, environmental lobbies would be strong enough to block or slow construction of new power stations, especially those where output was designed largely for export.

Another obstacle to trade is the lack of transmission capacity between eastern and western Europe. Western European utilities do not want to connect their grid to the Comecon grid because its voltage is not stabilised.

The alternative is to move power on high voltage direct current lines. However at the moment, there is only one such line, of limited capacity, connecting east and west, between Austria and Hungary.

Austria will have to expand this capacity to get all the power it wants from the Ukraine, and it remains to be seen if OEL can overcome opposition to new power line construction from the substantial number of people in the country who believe high voltage lines cause cancer.

Even if it does, it will not be able to take the volumes foreseen in its contract with the Ukraine until at least 1996.

There is, of course, an even more fundamental obstacle to substantial east-west trade in electricity. Both parts of Europe have virtually identical weather and seasonal patterns, which severely limits the opportunity for offsetting each other's demand peaks and troughs.

Perhaps the greatest prospects for energy trade between east and west are still along the lines developed during the cold war, with the west buying the east's oil and gas in return for hard currency.

The Kozloduy nuclear paint in Bulgaria, where three radioactive hot spots were found in a week last July, is just one of the power plants causing concern

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LEGAL NOTICES

POLLY PECK INTERNATIONAL (FINANCE) NV
(the "Company")
Registered Office, P.O Box 8085, Curacao
NETHERLANDS ANTILLES
NOTICE OF EXTRAORDINARY GENERAL MEETING OF SHAREHOLDERS AND SEPARATE CLASS MEETING OF THE HOLDERS OF THE PREFERENCE SHARES

Notice is hereby given that an extraordinary general meeting of shareholders will be held at the International Trade Center, Piscaderabaai in Curacao, on Wednesday April 8, 1992 at 10:00am for the purpose of considering amongst other things the amendments to the articles of association, and any other business as presented to the meeting pursuant to the agenda. The agenda has been deposited at the registered office for inspection by the shareholders. A separate class meeting of the preference shareholders will be held immediately thereafter. Copies of the proposed amendments to the articles of association can be obtained by shareholders at the office of the company.

VOTING: Shareholders are advised that in accordance with the articles of association the extraordinary general meeting will require a quorum consisting of the holders of at least two thirds of the A Shares. Certain decisions require a majority of at least three-fourths of the votes cast and other matters will be decided on a simple majority of the votes cast.

Holders of preference shares are entitled to attend and address the extraordinary general meeting, but have no voting rights.

After the extraordinary general meeting the preference shareholders will be requested to sanction the alteration of the special rights attaching to their preference shares resulting from the amendments to the articles of association as brought before the meeting. In accordance with the articles such sanction must be given by extraordinary resolution passed by a majority of at least two thirds of the votes cast. The necessary quorum for the separate class meeting is two or more persons holding or representing by proxy not less than two thirds of the issued and outstanding preference shares.

Preference shareholders unable to attend the separate class meeting in person are invited to contact Mr. Linden (at international 31 10 436 5144) upon which they will be provided with the agenda, an explanatory memorandum thereto, and a power of attorney which will allow the adoption of the amendments to the articles of association as brought before the meeting. The duly completed and signed power of attorney forms should be express mailed to the registered office of the company, Curacao, Netherlands Antilles to arrive there not later than April 6, 1992.

The Board of Directors March 13, 1992

INTERNATIONAL NEWS

Israel and US in clash over 'weapons sales'

By **Hugh Carnegy** in Jerusalem and **George Graham** in Washington

ALREADY-STRAINED ties between Israel and the US have come under greater pressure from new reports that Israel sold US military technology to China, South Africa and other third countries.

Israel has hotly denied any unauthorised sales, but US officials have confirmed they are examining possible transfers of military technology. "We have some concerns. We are discussing it with the Israelis. I don't want to go beyond that," said Mr Robert Clarke, assistant secretary of state in charge of politico-military affairs, whose office supervises US arms exports.

The row reflects deep splits in the Bush administration over how to handle US-Israeli ties. Besides the immediate point of contention, the $10bn (£5.6bn)-worth of loan guarantees Israel has asked to help it settle up to 1m immigrants from the former Soviet Union, Israel's entire role in US foreign policy is now in flux.

The loan guarantees question may be edging nearer solution, as leading senators have reportedly worked out a compromise which addresses US concerns that the guarantees should not directly or indirectly finance Israeli settlement activity in the occupied territories of the West Bank and Gaza. But it is not clear if Mr James Baker, US secretary of state, is ready to accept this Senate compromise.

Mr Binyamin Netanyahu, Israeli spokesman, said yesterday his country would co-operate with any US investigation of alleged unauthorised sales of US military technology, said to include air-to-air missile supplies to China, anti-tank missiles to South Africa, and cluster bombs to Ethiopia.

Israeli officials have reacted angrily to the reports, denying the allegations and accusing the Bush administration of trying to smear Israel. But beneath the anger, concern is clear over the effect the issue may have on the country's strategic relationship with Washington.

"Israel has nothing to hide and is prepared to make everything available to the US government," said Mr Netanyahu. "I can guarantee you we have scrupulously abided by our commitments to the US. We have a lot at stake here and we do not want to jeopardise it."

While denying illicit trade in US technology, officials have been forced by the reports to make public statements about Israel's arms exports from its own defence industries which have a record of copying and enhancing foreign technologies.

Mr Moshe Arens, defence minister, who is expected to discuss the issue with Mr Dick Cheney, US defence secretary, in Washington today, said publicly for the first time at the weekend that Israel had sold some of its own arms to China.

"Our industrial base is microscopic, so I think nobody should be surprised that Israel sells some of the products of its defence industries to other countries, including China," Mr Arens said on Saturday.

Israel is worried that the raising of the issue by Washington is a signal by the Bush administration, already at odds with the government of Prime Minister Yitzhak Shamir over policy in the occupied territories, that it attaches less importance to the strategic relationship with Israel than in the past.

Any restriction of US military co-operation would be a serious blow to the Israeli Defence Forces and Israel's ailing defence industries which have big sales in the US.

Arab peace-talk partners to co-ordinate strategy

LEBANON and its Arab partners in peace talks with Israel will meet in Beirut on a date to be fixed to co-ordinate strategy, the Lebanese ambassador to Egypt said, Reuter reports from Cairo.

Mr Abdel-Rahman al-Solh said Syria, Jordan and the Palestinians had agreed in principle to attend such a meeting following a Lebanese invitation. Jordan said yesterday it would attend an Arab meeting in Beirut later this month to discuss progress in the peace talks.

Arab diplomats said the proposed meeting would focus on the outcome of the four rounds of Middle East peace talks held so far and whether to hold a fifth round ahead of Israel's June general elections.

The last round of talks ended in Washington this month with Israel and the Arabs blaming each other for lack of progress.

Jordan's state news agency said the Beirut meeting would chart strategy for the peace talks. It did not say which countries would attend. Diplomats in Amman said the Arab peace talk partners would attend, plus Egypt.

Some Arab participants say holding another round would achieve little. Others say the process might lose momentum if the talks are put off for four months.

Fear and optimism in the Democratic debates

Distinctions between the candidates were more shadings than broad colours, **Jurek Martin** writes

WELL, "if you could clone the best of each of them, you'd have a pretty good candidate". Thus spoke the voice of eternal optimism, and underlying fear, in the Democratic party, expressed by a young woman interviewed on television after the latest in the series of debates, from Chicago, on Friday night.

The point is valid. Bill Clinton, Paul Tsongas and Jerry Brown were civilised and serious; they jabbed at each other, but they did not maul; they tried to mix minutiae with message; distinctions between them did emerge, but they were painted more in shades than broad colours.

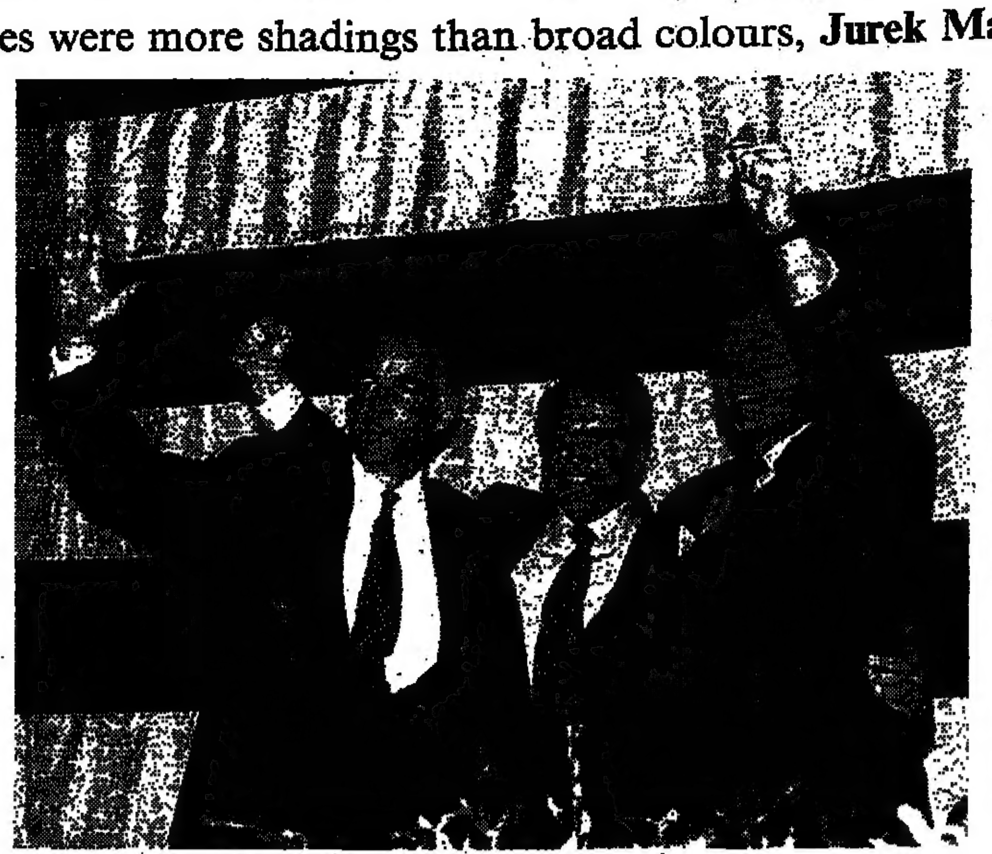
Mr Bill Clinton, governor of Arkansas, as befitting the one with a formal job other than running for the nomination, probably showed the best command of detail. He certainly talked more than the other two. Whether the subjects were taxation or industrial policy, which they were a lot, or even foreign policy (there actually was a question about what to do about dictators around the world), Mr Clinton spoke with the greater precision both about his plans and what was wrong with the solutions offered by his opponents.

Mr Paul Tsongas, the former senator from Massachusetts, basking in the endorsement of the Chicago Tribune that morning, kept emphasising that his economic policies were the most realistic. He repeated over and again his well-worn slogans that there was no longer a Santa Claus or candy store to take the public mind off the real problems of economic competitiveness with the likes of Germany and Japan. But he was constantly pressed by Mr Clinton on the fine print of his tax and investment proposals.

Much the loosest of the three and much the most adept at the populist anti-Washington one-liner, Mr Jerry Brown, the previous governor of California, cheerfully bashed on with his message of the need for "economic and social justice". To him, this meant stopping the export of jobs to low-wage Mexico, introducing a flat 13 per cent rate income tax, a comprehensive new energy policy, the creation of 50 new enterprise zones, and the building of "B2 bullet trains".

On the foreign policy question, Mr Clinton asserted that General Norman Schwarzkopf, the US Gulf war commander, was right and the allied troops should have fought on for another day or two further to weaken the capabilities of the Iraqi Republican Guard. But, he added, "we gave our word not to go to Baghdad" and that was correct.

Pressed by Mr Tsongas on the grounds that his stand on the war had been ambiguous, Mr Clinton insisted that whatever the prior mistakes of US policies in the region, in the end President Bush was right to go to war and should not have been denied that right by the Congress.



Democratic presidential hopefuls Jerry Brown (left), Paul Tsongas and Bill Clinton after the debate

The vigour of the Clinton response meant that Mr Tsongas was left only with the observation that the US no longer needed as many troops as it now had in Europe. Mr Brown regretted the slaughter of Shias and Kurds in Iraq and complained about administration policy, but added that the real issue was the number of unemployed in Michigan.

The state of the domestic economy is, relatively, Mr Tsongas' strong suit and he reminded everyone that, when in Congress, he was one of the 11 Democratic senators to vote against the Reagan-Bush tax cuts of 1982. Now, he said, the Democrats, by inference mostly Mr Clinton, were engaging in their own form of "voodoo economics" by blithely promising unaffordable middle-class tax cuts.

This induced Mr Clinton to accuse Mr Tsongas of a "kinder, gentler form" of Reaganomics, and Mr Tsongas to charge that Mr Clinton refused to ask Americans to make any sacrifices at all. Both then engaged in a vigorous exchange about petrol taxes, leaving Mr Brown free to score most heavily by pointing out that the average "working stiff" was always losing out through this sort of insider-policy debate.

Mr Clinton asked Mr Brown to reconcile his previous support of a north American free trade zone with his vigorous opposition to it. Mr Brown replied that a regulated common market, as in Europe, was fine but a regime which merely allowed the export of American jobs to Mexico, because it was cheaper, was not. Mr Brown must have mentioned Mexico at least half a dozen times in the debate.

The closing statements covered well-travelled territory, Mr Tsongas invoking Santa Claus and his own recovery from cancer, Mr Brown "keeping the jobs here" and not, of course, in Mexico, and Mr Clinton promising "a new kind of politics – putting people first".

There was, it should be said, no mention of the "character" issue dogging Mr Clinton. Each was intent on putting his best foot forward - and into President Bush. When not confronted with each other and dealing only in soundbites, the reticence is less apparent. And they were due to go at it again here last night.

US delay on patents talks pleases Thais

THE outgoing Thai government has reacted with satisfaction to the US announcement it was deferring a decision on trade retaliation against Thailand until a new government is installed, Victor Mallet reports from Bangkok.

Mrs Carla Hills, trade representative, described a new Thai pharmaceutical and agro-industrial patents law as "deficient in several critical respects" but praised the government for pushing through the legislation, and said the US would seek the discuss the matter with the new administration after Thailand's general elections on March 22.

Washington is critical of the new law because it does not protect "pipeline" products already invented but not yet distributed in Thailand, and because of the way it allows the Thai government to force a patent-holder to issue manufacturing licences to competitors if its prices are deemed unreasonably high.

Debate in Thailand has focused partly on the issue of whether Thailand should bow to US pressure on matters likely to affect the cost of medicines.

Warning that action will be needed to avert aviation crisis

Push to harmonise air traffic systems

By **Paul Betts**, Aerospace Correspondent

TRANSPORT ministers from the 28 countries in the European Civil Aviation Conference (ECAC) will meet in London tomorrow to step up efforts to improve Europe's fragmented and inadequate air traffic control structure.

Airlines and civil aviation authorities have warned that Europe will face an air travel crisis in the next few years unless urgent action is taken to harmonise and integrate European air traffic control systems.

Air traffic delays are estimated to cost European airlines between $4bn (£2.3bn)-$5bn a year, and airlines say the current air traffic control system risks undermining the European Commission's efforts to liberalise air transport in Europe.

The extent of the problem is highlighted in a report which the transport ministers will consider. The report says the work which will be needed to harmonise and improve air traffic control "will be much greater" than had been at first estimated.

The biggest deficiency of the present network is that the different air traffic control centres in Europe use computers from 18 different manufacturers with 22 different operating systems and 33 different programming languages.

Two years ago, the transport ministers launched a long-term initiative to enhance European air traffic control in response to the air travel crisis of summer 1988, when Europe's system could not cope with heavy holiday demand and thousands of passengers were stranded at airports.

The problem was particularly acute in the UK where delays have been exacerbated by air traffic congestion in continental Europe and regular strikes by continental air traffic controllers.

ECAC ministers will attempt to draw up concrete proposals to integrate the different European air traffic control systems.

They are also expected to consider introduction of new air routes and airspace structures as well as the establishment of new facilities with common procedures.

Although last year's air travel slump caused by the economic recession and the Gulf conflict eased some of the immediate pressures facing European air traffic control, the recovery in traffic this year is expected to revive the problem.

Figures for airline punctuality, released by the Association of European Airlines (AEA), which groups 22 European carriers, showed little improvement in delays last year despite the traffic slowdown.

The AEA said 19 per cent of airline departures in Europe were delayed by more than 15 minutes last year. This was only slightly better than the previous year.

The AEA also said congestion continued to grow in Europe last year with 54,000 aircraft hours lost because of congestion.

This was the equivalent to the annual workload of a fleet of 20 short-haul jets.

Mr Giovanni Bisignani, the current AEA chairman and managing director of Alitalia, recently warned that Europe's inadequate air traffic control system could lead to another summer of delays and cancellations this year.

Italian strike is overruled

THE Italian government yesterday invoked special powers to cancel a proposed strike by air traffic controllers called for today, Robert Graham reports from Rome. Similar powers are likely to be invoked for another stoppage planned by different unions among the air traffic controllers for tomorrow.

Mr Carlo Bernini, the transport minister, ordered air traffic *controllers to report to work as normal and controllers who defy* the order could face up to five years in jail.

Strikes last Friday and Saturday by the air traffic controllers forced the cancellation of over 80 per cent of all flights in and out of Italy.

The government has intervened after strong pressure from Alitalia and protests from other international airlines. The stoppages were called as part of a dispute over work conditions.

EC to act on bank loans today

EC finance ministers are expected to agree today on Community-wide standards to prevent banks and credit institutions collapsing by lending too much to individual clients, Andrew Hills reports from Brussels.

Portugal, which holds the EC presidency, is to put forward a compromise eventually preventing lenders granting loans worth more than 25 per cent of their shareholders' funds to a single borrower or group of borrowers.

A single loan worth more than 10 per cent of shareholders' funds would have to be cleared with national banking supervisors.

Ministers will today try to agree a transition period for banks in some countries such as France and Italy, which are currently allowed to grant loans to a single client up to a 40 per cent limit.

The European Commission would like this cut to 25 per cent within five years, but member states are likely to settle for the longer eight-year transition proposed by the Portuguese.

Britain limits banks' large risks to 25 per cent of shareholders' funds.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

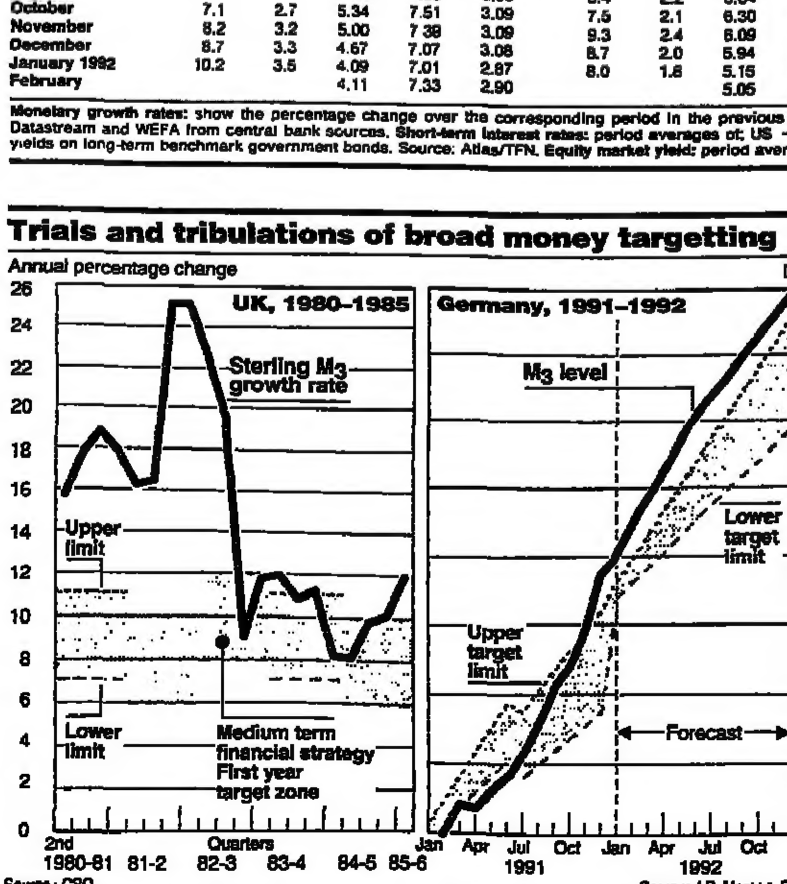
	UNITED STATES					JAPAN				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	9.2	9.1	8.00	10.62	n.a.	5.0	8.4	6.62	6.34	n.a.
1986	12.3	8.3	6.49	7.68	3.43	6.9	8.7	5.12	4.94	0.84
1987	11.6	6.5	6.82	8.38	3.12	10.5	10.4	4.15	4.21	0.55
1988	4.3	5.4	7.65	8.84	3.61	8.4	11.2	4.42	4.27	0.54
1989	0.9	3.8	8.99	8.49	3.43	4.1	9.9	5.31	5.11	0.48
1990	3.7	5.3	8.06	8.55	3.60	2.6	11.7	7.62	7.27	0.65
1991	6.0	3.1	5.87	7.21	3.21	5.2	3.6	7.21	6.37	0.75
1st qtr.1991	4.4	3.2	6.69	8.01	3.48	2.4	6.0	7.96	6.54	0.75
2nd qtr.1991	5.3	3.4	6.03	8.12	3.18	3.3	3.7	7.70	6.71	0.71
3rd qtr.1991	6.1	2.8	5.79	7.95	3.10	6.6	2.8	7.11	6.41	0.78
4th qtr.1991	8.0	3.1	5.00	7.21	3.09	8.6	2.2	6.11	5.88	0.76
March 1991	4.8	3.3	6.40	8.10	3.25	1.2	5.1	7.91	6.63	0.70
April	4.4	3.2	6.08	8.03	3.17	0.3	3.8	7.75	6.69	0.70
May	5.5	3.5	5.92	8.07	3.20	3.2	3.6	7.72	6.64	0.71
June	5.9	3.4	6.10	8.27	3.17	6.6	3.7	7.63	6.80	0.72
July	6.2	3.1	6.05	8.28	3.14	6.1	3.4	7.45	6.75	0.75
August	6.2	2.7	5.72	7.91	3.07	7.2	2.7	7.21	6.39	0.77
September	6.0	2.4	5.58	7.86	3.08	6.4	2.2	6.64	6.09	0.76
October	7.1	2.7	5.34	7.51	3.09	7.5	2.1	6.30	5.97	0.72
November	8.2	3.2	5.00	7.39	3.09	9.3	2.4	6.09	5.86	0.75
December	8.7	3.3	4.67	7.07	3.08	8.7	2.0	5.94	5.72	0.81
January 1992	10.2	3.5	4.09	7.01	2.87	8.0	1.8	5.15	5.45	0.83
February			4.11	7.33	2.90			5.05	5.53	0.87

	GERMANY					FRANCE				
	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	4.4	5.1	5.45	7.09	n.a.	8.2	7.4	10.03	11.74	n.a.
1986	8.9	8.3	4.63	6.19	1.79	6.9	6.8	7.79	8.74	2.85
1987	9.0	7.3	4.03	6.33	2.21	4.1	10.0	8.26	9.59	2.75
1988	9.6	6.4	4.33	6.58	2.61	3.8	8.6	7.94	9.02	3.69
1989	6.3	5.7	7.12	7.02	2.22	8.0	9.5	9.39	8.79	2.88
1990	4.5	4.5	8.49	8.63	2.11	3.8	9.0	10.32	9.87	3.19
1991	5.1	5.8	9.25	8.44	2.38	−5.1	3.7	9.62	9.03	3.58
1st qtr.1991	6.3	5.4	9.17	8.43	2.51	0.6	7.9	9.85	9.30	3.64
2nd qtr.1991	5.0	5.6	9.11	8.28	2.25	−0.3	6.4	9.43	8.95	3.48
3rd qtr.1991	5.2	5.8	9.24	8.43	2.31	−2.1	5.6	9.54	9.04	3.60
4th qtr.1991	4.1	6.6	9.47	8.29	2.45	−5.1	3.7	9.66	8.80	3.61
March 1991	6.6	5.7	9.09	8.28	2.38	0.6	7.9	9.43	9.04	3.36
April	4.5	5.5	9.18	8.20	2.30	2.3	7.8	9.34	8.88	3.46
May	5.3	5.7	9.08	8.30	2.52	1.2	7.3	9.24	8.86	3.44
June	5.1	5.4	9.06	8.36	2.18	−0.3	6.4	9.72	9.11	3.53
July	5.8	5.8	9.15	8.57	2.29	−0.5	6.4	9.59	9.15	3.69
August	4.8	5.9	9.31	8.41	2.32	2.7	6.9	9.59	9.09	3.62
September	5.1	5.6	9.27	8.30	2.31	−2.1	5.6	9.43	8.86	3.47
October	4.9	5.3	9.38	8.31	2.41	−3.1	4.4	9.32	8.79	3.50
November	4.1	5.4	9.43	8.32	2.42	0.8	5.0	9.56	8.82	3.56
December	3.3	6.1	9.61	8.24	2.52	−5.1	3.7	10.10	8.81	3.77
January 1992	3.6	6.3	9.54	7.91	2.39	−2.4	4.1	9.99	8.40	3.49
February			9.61	7.88	2.30			10.06	8.44	3.40

	ITALY					UNITED KINGDOM				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1985	13.7	14.0	14.34	13.71	n.a.	4.7	13.2	12.32	11.03	n.a.
1986	10.4	9.0	13.25	11.47	1.41	4.0	15.3	11.02	9.97	4.35
1987	10.5	11.0	11.32	10.58	1.94	4.7	14.6	9.77	9.52	3.80
1988	7.5	8.1	11.24	10.54	2.71	6.8	17.0	10.41	9.69	4.48
1989	8.1	10.1	12.41	11.61	2.46	5.9	17.8	13.96	10.30	4.36
1990	9.0	9.6	11.98	11.87	2.84	5.4	16.2	14.82	11.65	5.07
1991	8.3	7.4	11.83	13.20	3.45	2.3	8.2	11.58	10.08	4.97
1st qtr.1991	7.8	7.3	12.37	11.86	3.69	2.8	10.6	13.30	10.30	5.22
2nd qtr.1991	7.7	6.5	11.61	12.87	3.21	1.7	8.9	11.64	10.34	4.84
3rd qtr.1991	8.0	5.9	11.60	12.86	3.31	2.1	7.1	10.82	9.98	4.80
4th qtr.1991	9.8	9.8	11.84	12.92	3.59	2.8	6.1	10.61	9.73	5.03
1991 March	8.6	8.6	12.17	11.64	3.43	2.5	9.8	12.49	10.25	4.82
April	8.8	6.1	11.74	13.07	3.36	1.5	9.7	12.02	10.17	4.74
May	8.0	8.1	11.39	12.82	3.24	1.6	9.2	11.59	10.32	4.85
June	8.5	5.3	11.40	12.72	3.02	1.9	7.8	11.30	10.53	4.96
July	7.4	6.1	11.54	12.90	3.24	2.2	7.7	11.14	10.26	4.91
August	7.9	6.4	11.69	13.04	3.31	1.6	7.1	10.94	10.01	4.76
September	8.7	5.3	11.56	12.65	3.39	2.4	6.5	10.37	9.86	4.73
October	8.6	5.7	11.40	12.85	3.51	2.6	6.4	10.45	9.72	4.83
November	10.2	12.9	11.66	12.92	3.58	2.9	5.6	10.54	9.77	5.00
December	10.0	10.7	12.47	13.03	3.67	2.8	6.3	10.84	9.70	5.25
1992 January			11.97	12.71	3.37	2.2	6.2	10.71	9.53	5.00
February			12.04	12.62	3.31			10.44	9.36	4.94

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Short-term interest rates: period averages of: US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-Lira, UK – 3-month Libor. Source: Datastream. Long-term interest rates: period averages of yields on long-term benchmark government bonds. Source: Atlas/TFN. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

Trials and tribulations of broad money targetting



Source: CSO

Source: J.P. Morgan, Frankfurt

Re-birth of UK monetarism in a European disguise

BRITAIN has suffered, survived and vowed never to repeat its early-1980s attempts at pursuing precise domestic monetary targets. No mainstream political party describes itself as monetarist; all parties are committed to continued membership of the European exchange rate mechanism; and all appear resigned to the current combination of high interest rates and rising unemployment.

Yet the current framework of UK economic policy-making remains similar to the one that prolonged the 1980-81 recession. UK interest rates are again very high even though the economy has been in recession for over a year and inflation has fallen to European levels. What distinguishes the new-style monetarism is its international flavour. UK monetary policy is once more determined by an elusive broad money target; but the target is now set in Frankfurt.

German broad money growth determines UK interest rates, and not vice versa, because of the Bundesbank's anti-inflation credibility. The D-Mark has never been devalued within the ERM, and no member country has ever managed to reduce its interest rates below those of Germany. The pan-European interest rate floor, set by the Bundesbank, has risen over the past two years as inflationary pressures have built up in Germany following unification. The fiscal deficit, tax increases and the generous terms of monetary unification have all fuelled bank lending and wage and price inflation. In December, the Bundesbank raised German interest rates and revised its target range for annual broad money growth to 3.5-5.5 per cent. Yet M3 rose by an annualised 9 per cent in January, up from 5.8 per cent in December.

Interest rates across Europe stay uncomfortably high as a result. Moreover, Europe's monetary policy will remain tight for some time, despite sluggish economic growth outside Germany. Mr Helmut Schlesinger, Bundesbank president, last week reaffirmed its commitment to the current monetary target zone and demanded an immediate clampdown on German credit expansion. But M3 is not expected to dip back into its new target zone this year, as the right-hand side of the chart shows. Inflation in Germany and slow growth elsewhere make German money supply an inappropriate target for European monetary policy. Does the broad money target make sense for Germany? Monetary targets are only a good guide for policy if the relationship between money and inflation is stable and predictable. The relationship has been more stable in Germany than in other industrialised countries over the past decade. But the recent UK experience counsels caution.

Domestic monetarism in Britain collapsed because the government tried to target broad money growth just when an apparently stable relationship between money and inflation was breaking down. The abolition of exchange controls and supplementary special deposits in 1979-80 raised the proportion of national income that the public wanted to hold in broad money assets. The growth rate of £M3 duly shot out of its new target range, as the chart shows, even though inflation had already begun to fall.

Could German broad money growth also be over-shooting because the relationship between the money stock and nominal income is shifting? One reason why this might be so is that the D-Mark is being used as a parallel currency elsewhere in eastern Europe. That would increase the demand for broad money without *fuelling German inflation*. But non-bank deposits have risen at least as fast as currency in circulation.

Another reason why the demand for broad money might have risen is the proposed change to the taxation of interest income later this year. This may have prompted investors to sell non-money assets and hold their savings in cash and other broad money deposits. Meanwhile, east Germans are still in the process of switching their broad money holdings into other non-money assets.

All of which makes German money demand unpredictable, and the Bundesbank's current task particularly difficult. A slavish devotion to fixed monetary targets would be risky, as the UK experience has demonstrated. The rest of Europe has little choice other than to trust the Bundesbank's judgement.

Edward Balls

INTERNATIONAL NEWS

Doubts surround Korean nuclear pact

DOUBTS persist over whether North and South Korea will succeed in implementing Saturday's breakthrough agreement calling for mutual inspections of their nuclear facilities within three months, Reuter reports from Seoul.

However, the agreement marks an important step towards easing tensions on the divided peninsula, observers say.

The two former bitter enemies have yet to agree on inspections procedures, which could present problems.

Singapore airline plans expansion

Tradewinds, Singapore Airlines' tour and charter subsidiary, is to spend $100m on new aircraft with the aim of becoming a leading carrier in the Asian region over the next five years, writes Kieran Cooke in Singapore.

Tradewinds, to be renamed SilkAir, will become Singapore's second scheduled airline. The Tradewinds tour and charter business will be transferred to a new subsidiary, Tradewinds Tours and Travel.

Mr Michael Chan, Tradewind's general manger, said that within five years SilkAir would have about 12 aircraft, with a mix of small 80-seat jets and medium-sized 180- to 200-seaters. SilkAir plans a rapid expansion of its route network particularly to destinations in China.

China's $10bn dam project to go ahead

China's massive $10bn Three Gorges dam project – which involves moving one million people from the Yangtze River area – is set to receive parliamentary approval this week, Reuter reports from Beijing.

Sikh motor scooter gunmen kill 18

Sikh militants riding motor-scooters opened fire in Ludhiana, Punjab's largest city, killing at least 18 people, 16 of them Hindus, AP reports from New Delhi.

The murders were the second attack on Hindus in an industrial area this week in Punjab, where Sikh rebels are fighting for an independent nation.

Afghan guerrillas claim big victory

Afghan Mujahideen guerrillas said yesterday they had captured a strategic district in the northern province of Samangan bordering Uzbekistan, Reuter reports from Islamabad.

If confirmed this represents their first significant victory this year amid renewed international efforts to end the 13-year-old civil war.

Japanese politicians urge interest rate cut

By Stefan Wagstyl in Tokyo

THE Bank of Japan came under renewed pressure at the weekend to cut interest rates to boost a slowing economy and revive a sagging stock market.

Thinly-disguised calls for a further cut in the Official Discount Rate, the central bank's principal indicator of monetary policy, were made by Mr Shin Kanemaru, the LDP's deputy president, and Mr Noboru Takeshita, a former prime minister and key party boss.

Mr Yasushi Mieno, the central bank governor, has insisted he will not bow to political pressure.

But there is growing speculation in Tokyo that he will soon decide of his own accord to cut rates, given mounting evidence that the economy is slowing faster than the authorities had hoped.

On Saturday, the Nihon Keizai Shimbun, the business daily, said the next cut in the discount rate could come this month.

Since the beginning of last year, the rate has been cut three times in 0.5 percentage point steps to 4 per cent. Economic data published since the rate was last cut at the end of December indicates the slow down in economic activity is spreading, with the initial decline in spending on property, capital investment and luxury goods steadily extending to consumer markets.

The central bank's recent survey of short-term business trends showed business confidence declining sharply. Mr Mieno thus has plenty of grounds for action without appearing to bow to political pressure.

Mr Kanemaru's weekend comments were particularly significant because he caused a minor storm last month when he suggested Mr Mieno should be sacked if he did not cut rates. This time he was more circumspect, saying at a private meeting that the economy was slowing and the risk of a fall "into the abyss" should not be ruled out.

The comment stands in sharp contrast to the oft-repeated view of Mr Mieno that there is very little risk of the slowdown turning suddenly into recession. Mr Takeshita, for his part, called for "decisive" pump-priming action.

Though neither politician mentioned the stock market, LDP leaders are known to be very concerned about the health of the financial markets, not least because many potential contributors to LDP funds have been starved of profits from financial investments. The Nikkei index stands close to the 20,221.86 figure which marks the bottom of the range it has established since the bear market started with sharp price falls in early 1990.

Investors were relieved that complex futures-related settlement trades were carried out on Friday without a further decline in prices. Futures-related trading has been blamed by some Japanese brokers and officials for eroding confidence in the cash market, though foreign companies, which are heavy traders of futures, say the fault lies in the general weakness of sentiment.

With little sign of foreign investors buying stocks as much as last year and Japanese institutions and individuals staying clear of the market, there are grave fears that the Nikkei index could fall below 20,000 – back to its lowest levels since 1987.

Earthquake toll reaches 320 as more help arrives

THE death toll in the Turkish earthquake disaster reached 320 yesterday, with another 150 feared dead. Fears that the toll might reach 1,000 were discounted, Reuter reports from Erzincan.

More international rescue teams joined increasingly desperate efforts to find survivors amid the rubble of Erzincan. Hundreds spent the night in tents or under blankets, prompting protests to the governor's office yesterday demanding extra help with food and shelter. Villagers from outlying areas expressed anger about lack of help.

Erzincan's deputy governor, Mr Mehmet Unal, said US, Swiss and Turkish teams helped by more than 2,700 troops were digging for people buried under collapsed multi-storey buildings.

Teams from Russia and France were expected to join rescue efforts yesterday. Last night the Council of Europe, which is co-ordinating aid efforts, said there were enough doctors at the scene but more medicines were needed.

● Left: A mother carries her *screaming injured child to hospital in Erzincan yesterday.*

UN concern on Cambodia

THE head of a 22,000-strong United Nations task force said yesterday he was worried about the lack of effectiveness of Cambodia's national reconciliation body, Reuter reports from Phnom Penh.

Mr Yasushi Akashi of Japan also expressed concern over violations of the Paris peace agreement signed by the country's four main factions last year. He said further acts would not be tolerated.

"If there are any persistent or clear-cut violations, I'm sure the Security Council will be in a position to take a clear-cut decision of enforcement," Mr Akashi said on his arrival in Phnom Penh.

Mr Akashi said he was concerned about the "ineffectiveness" of Cambodia's Supreme National Council which is "supposed to be a very, very important instrument for national reconciliation to prepare for the steps of democracy in this country".

He added that he would work with Prince Norodom Sihanouk, the Cambodian head of state and SNC president, towards making a council which comes up to its "promises and expectations."

The SNC holds Cambodian sovereignty ahead of UN-organised elections next year. It groups a coalition of three guerrilla groups, including the extremist Khmer Rouge, and the rival Phnom Penh government.

The UN task is to disarm the four warring parties, supervise five ministries and prepare elections. Full-scale deployment of UN troops is expected in May.

Prince Sihanouk compared the SNC's 12 members to "crabs in a basket" that had constantly to be collected together to prevent them from escaping.

Fighting between Khmer Rouge guerrillas and Phnom Penh forces flared last week.

Australia embroiled in racism debate

AUSTRALIA, one of the strongest supporters of sanctions against apartheid in South Africa, is embroiled in a debate over the extent of institutionalised racism against its Aboriginal minority, writes Kevin Brown in Sydney.

Race relations have rarely been smooth since the first white settlers arrived in Sydney 204 years ago. But two incidents in recent weeks suggest that official prejudice against blacks remains widespread.

The most striking was an amateur video broadcast on ABC television which showed policemen at a charity function cavorting for the camera with blacked faces and nooses around their necks.

The officers identified themselves as David Gundy and Lloyd Boney, both Aborigines who died in police custody. Mr Gundy was shot dead in Sydney in 1989; Mr Boney hanged himself in a police cell in 1987.

The screening of the video followed a documentary in which police in the Sydney suburb of Redfern were filmed harassing Aborigines, some of whom were arrested for using "offensive" language which also formed a prominent part of the police vocabulary.

Both incidents have been condemned by political leaders of all parties. Mr Paul Keating, the prime minister, said the video was "a national disgrace". He urged Australians to "expunge racism from every corner of this country". The officers, who belong to the New South Wales (NSW) state police, have been placed on restricted duties, and are being investigated by the force's internal affairs department. A separate inquiry is taking place into the events in Redfern.

Aborigines reacted to the video with outrage. Mr Paul Coe, chairman of the Aboriginal Legal Service in Redfern said the video was indicative of racism "in all institutions throughout the states and the Commonwealth [federal government] of Australia." Ms Irene Moss, the federal Race Discriminations Commissioner, said the "outrageous" behaviour exposed in the broadcasts reflected "widespread involvement of police in acts of racist violence, intimidation and harassment of Aboriginal people".

Police officers appeared to be less concerned. Mr Tony Day, president of the NSW Police Association, said it was a disgrace the video had been sensationalised.

Golden triangle states agree on drugs fight

By Victor Mallet in Bangkok

BURMA, Thailand and Laos – the three "Golden Triangle" states – agreed at the weekend to increase co-operation on action to fight drugs production and trafficking.

A joint declaration issued after a ministerial meeting in Thailand also called for greater international efforts to curb demand for drugs.

No details were released on what the three countries intended to do, however, and sceptics pointed out that the ruling Burmese junta is reported to have struck deals with opium warlords on its territory. The US says Burma remains by far the world's largest source of illicit opium and heroin.

Mr Ohn Gyaw, the Burmese foreign minister, rejected the American assessment as "wrong", while Police General Pow Sarasin, the Thai Deputy Prime Minister who chaired the meeting, said: "It's history in itself, when the three countries consulted one another on how to get rid of narcotics."

Major focuses pact hopes on Ulster unionists

By Philip Stephens, Political Editor

MR JOHN MAJOR is keeping open the option of a post-election deal with unionist MPs in Ulster after his flat rejection at the weekend of Liberal Democrat terms for a pact in a hung parliament.

In his weekend speech to Tory activists at the launch of the Conservative election campaign in Torquay, the prime minister dismissed any suggestion that he would agree the move to proportional representation which Mr Paddy Ashdown, Liberal Democrat leader, has set as the price of his party's support.

Mr Major also set out an uncompromising stance against devolution for Scotland, warning that an assembly in Edinburgh would lead inexorably to the break up of the UK.

However, efforts to re-establish an assembly at Stormont could form the centrepiece of a strategy designed to win the support of unionist MPs if the prime minister fails to win an outright majority on April 9. There are currently 13 MPs representing the unionist cause in Ulster.

Senior ministers said last night that they had not drawn up formal proposals to present to the Official Unionists (who hold nine seats) or to the smaller Democratic Unionists (three seats) and Ulster Popular Unionists (one seat).

The cabinet agreed last week that there should be no public discussion during the campaign of any deal that might be struck with minority parties. Mr Major underlined that stance in an interview with BBC Radio's The World This Weekend, when he stressed repeatedly that he was confident of winning an overall majority.

But ministers believe that if the Conservatives fall just short of the 326 seats needed for a majority, a deal could be struck at least with the nine Ulster Unionists.

The suggestion now being canvassed by cabinet members is that the current all-party talks in Ulster would be accelerated with the aim of re-establishing a measure of self-rule in the province. If the creation of an assembly could be agreed with the Dublin government, the Anglo-Irish agreement would fall into abeyance.

Mr Major's apparent flexibility on Ulster contrasts starkly with the hard-line position he established in Torquay on both electoral reform and devolution.

Pouring scorn on suggestions that the abolition of the first-past-the-post voting system would lead to a fairer system, he said: "There will be no deals with those opportunists who stand for nothing except their own political self-interest." He added that instead "we are going to show up their PR campaign for the sham that it is".

Mr Major was equally adamant in his opposition to the proposals for devolution in Scotland advocated by the opposition parties. He said these could put the UK on the road to a "Disunited Kingdom". Devolution, he added, would raise tax levels in Scotland, freeze out investment and leave Scottish members at Westminster with second-tier status.

Quotes of the day

Shares down. Interest rates up. Sterling down. That's what I call a triple whammy

Paddy Ashdown

One expects soon to hear Harry Cohen (Lab. Leyton) is a serial killer, Jeremy Corbyn (Lab. Islington North) likes nothing better than to put on a dinner jacket and go nightclubbing with Amanda de Cadenet, or that John Prescott (shadow transport secretary) has a secret collection of pressed flowers

Tony Banks, Labour MP, on prospect for a dirty campaign

The fetish the Labour and Liberal parties have for raising taxes seems to be very damaging – very damaging to individuals and very damaging to the country and to the business attitude that prevails in the country

John Major

If Labour had won in 1983, Britain would be an isolated, fly-blown Socialist banana republic, stranded on the edge of Europe, isolated from America with the highest tax levels in the western world, half its industry nationalised and no means to defend itself

Chris Patten, Conservative MP for Bath

Past Tory manifestoes may have had some chance of winning the Booker prize for fiction. But as a guide to what they actually did in power they were a lot less reliable than even Old Moore's Almanack

Bryan Gould, shadow environment secretary

No Labour Party that I ever lead will disadvantage people who are on medium or on lower incomes

Neil Kinnock

This Financial Times survey is devastating news for Labour

Chris Patten

PM's first 'talkabout' with party faithful

By Alison Smith

SAWTRY VILLAGE hall in Huntingdon was the venue for the first of the prime minister's shirt-sleeved, one-man shows, or "talkabouts" across the country that will be a new element in the Tories' election campaign.

The day after officially launching the Tories' election effort with a speech to a party rally in Torquay, Mr Major informally launched the campaign with a 45-minute question and answer session. Selected members of the local Conservative Association and some of their friends were invited to meet the man who has represented them for 13 years and who received a majority of 27,000 in 1987.

Conscious that public speaking is not the prime minister's greatest strength, party officials sounded faintly defensive about the new tactic, emphasising that such meetings would be in addition to the set-piece occasions and not instead of them. They had expected questions to be difficult, as they had been in two dry runs, in Bristol last summer and at York in January.

Such expectations were dashed by the automatic standing ovation and the respectful atmosphere, in part engendered by a rousing introduction from Mr Jeffrey Archer.

The prime minister, sitting on a bar stool and choosing his own questioners from the 300-strong audience, looked at ease and relaxed, even if one or two phrases such as "savings ratio" and talk of buying "that new consumer durable" seemed to owe more to Westminster than to the common touch.

The questions, mainly on the economy, education and health, gave Mr Major plenty of choice and opportunity to develop his themes of greater choice and opportunity in the Britain he wanted to see in the 1990s.

Tory party officials have billed this and the other five or so such occasions which are planned as "not press conferences but people conferences."

But although it was the people asking the questions, the television and lights and cameras reinforced the point made by Sir Geoffrey Pattie, the party deputy chairman, who acted as Mr Archer's warm-up man, that the meeting with Mr Major would reach 15m to 20m television viewers.

"I just wanted to check that, despite everything, you'd still vote Tory."

Poll platform: Paddy Ashdown yesterday acknowledges the applause at a Liberal Democrat rally in London

Ashdown will unveil manifesto

By Ralph Atkins

THE LIBERAL Democrats will today unveil a manifesto backing a Keynesian programme of public investment, funded partly out of higher income tax, which threatens to overshadow the party's commitment to a free-market economic policy.

Mr Paddy Ashdown, party leader, will try to set his party apart from Labour's spending pledges with what senior party strategists describe as an "honest costing" of its economic recovery package – including a penny on the basic rate of income tax. The party would also abolish the government's new 20p band on the first £2,000 of taxable income.

The 15,000-word manifesto, "Changing Britain for good," also includes a pledge that the Liberal Democrats will not support any government which "turns its back" on electoral reform.

"Any minority government which tries to play games with the constitution in order to cling to power, providing instability and dodging the moral challenges of democracy, will have to contend with us," its conclusion says.

The extra spending planned for housing, transport infrastructure, energy conservation, hospitals and schools will create 400,000 jobs this year, the party estimates.

The manifesto will also include a series of measures to promote competition – including plans for private rail operators to use British Rail's tracks – reflecting Mr Ashdown's determination to steal some Conservative clothes with his liberal radicalism.

Addressing Liberal Democrat candidates yesterday Mr Ashdown said the party was committed to public investment, private enterprise and social justice. "If we have to risk our vote by saying what really needs to be done then we have the courage to do that," he told the packed London rally.

"This party does not believe in high taxation. Believe me, Liberal Democrats want taxes to be as low as they possibly can but we will not stand aside while our economy is still stuck in decline."

He dismissed Labour's alternative Budget as "Mr Kinnock's hall of mirrors".

Liberal Democrats officials claimed a victory in forcing Mr John Major to take on proportional representation as an election issue.

Mr Ashdown said: "A vote for Mr Major is a vote against reform, against a modern system of democracy and in favour of a return to the constitutional dark ages."

About 50,000 copies of the Liberal Democrat manifesto have been printed, excluding Scottish and Welsh versions.

Underlining the party's determination to change the political system, as well as its leaders, the manifesto shuns usual conventions to present a "World Bank-style" report on Britain's economy.

The opening page reads: "Be warned: this manifesto may not be what you expected."

Lib Dems form dawn patrol for campaign raids

SHORTLY after dawn each morning until April 9 the small, disciplined Liberal Democrat high command will launch the first salvoes in the day's campaigning.

A brisk review of events will be followed by a 7.15am press conference. The 8am news bulletins will carry the Liberal Democrats' theme for the day. The others will have to catch up.

That, at least is the theory. Mr Des Wilson, Liberal Democrat campaign director, has constructed a slim, but not tiny, strategy team to force the minority party's message into voters' consciousness while others sleep. The number of decision-makers is minimised and resources targeted.

The vanity of parliamentarians has not been pampered – Mr Paddy Ashdown, party leader, is the only MP on the inner strategy-making circle.

It is a high-risk strategy, dependent on a few people getting on together and working effectively through an exhausting schedule. Although experienced and enthusiastic, the strategy team has yet to prove it is cohesive and able to stand back from the campaign to see how effectively scarce resources are being deployed.

The danger is of internal disputes, burn-out, or of being squeezed into simply responding to the far larger campaigns of the Conservatives and Labour, which will be dominated by ranks of ministers or their shadows.

Much has been invested in Mr Ashdown who, to outsiders, will appear to be running the campaign single-handedly. He will travel from one end of the country to the other for photo-calls and rallies.

Mr Wilson has a campaign budget of £1.5m – compared with about £7m expected to be spent by Labour and £9m by the Tories. He might be able to spend more if fund-raising allows but is already assuming that £500,000 will be raised during the campaign.

The biggest costs are the leader's tour, the evening rallies and the morning press conferences. Precise figures are not being released but the advertising budget will be small.

The focus will be on "strategic" adverts in quality newspapers, by the TBWA advertising agency, to grab the attention of opinion formers to the agenda the party is trying to set. With television advertising illegal, the financial disadvantage is not as great as it would otherwise be.

Yet with limited finances, the party's strongest card could prove to be the campaigning prowess of its strategy team. The example to be avoided is the 1987 election campaign of the former Alliance parties.

Then, as much energy was expended on co-ordinating the SDP and Liberal parties, and on soothing bruised egoes, as on the campaign itself. Logistical and policy clashes were inevitable.

Veterans of 1987 recall with horror the day it was discovered, within hours of transmission, that an already-weak party election broadcast featuring Mrs Rosie Barnes, the SDP MP, should have been 10 minutes long, not the five minutes prepared.

This time the strategy team will be dominated by Mr Wilson and Mr Ashdown. It will assemble before and after the morning press conference and again late at night, moving between the National Liberal Club in Whitehall, the Horseguards Hotel next door and party headquarters in Cowley Street.

Gregarious and bubbly, Mr Wilson is a campaigning legend with a curriculum vitae dating from his formation of Shelter, the charity for the homeless, in 1966.

In 1987 he ran the Alliance party's overnight operation. He has been planning the present campaign for two years.

His deputy is the calmer Mr Alec McGivan, once a Labour supporter and formerly SDP national organiser, who brings experience outside elections as a full-time communications specialist for a campaigns consultancy. His job will be day-to-day logistical "crisis management".

> **Ralph Atkins on how the party hopes to capture the initiative each day**

The "intellectual" – and the nearest the strategy team has to an elder statesman – is Lord Holme, the 55-year-old former president of the Liberal party, who has written most of the party manifesto.

Responsible for Mr Ashdown's speeches will be Mr Alan Leaman, a researcher who has also acted as press liaison officer in the four years since Mr Ashdown became leader.

Ms Olly Grender is the chief press officer with responsibility for trying to control the images presented on television which the party hopes both to feed and fool.

Mr Tim Clement-Jones, former Liberal party chairman, will be responsible for constituency associations and local candidates. Some of these are well-organised, but others may well be foundering wanting in the basic tasks of securing the local vote.

The two other members of the strategy team are Ms Alison Holmes, assistant to Mr Wilson, who will take charge of arranging party election broadcasts, and Mr Chris Rennard, a veteran of Liberal Democrat by-election campaigns, who will have particular responsibility for hard-nosed tactics in target seats.

Of the nine members, only Mr Ashdown, Mr Wilson and Mr Holme will take a high profile during the campaign. The main spokesmen – the party's MPs – will be slotted into a schedule drawn up by the strategy team. Whatever the frenzy behind the scenes, the public faces of the party must always be seen to be calm.

Hattersley promise on incomes

By David Owen

MR ROY HATTERSLEY yesterday promised to reverse the redistribution of income brought by 13 years of Conservative rule, as he rejected the notion that Labour has turned its back on its traditional beliefs.

Addressing a star-studded London rally, the shadow home secretary played up the constancy of Labour's guiding principles over the years and said that the party would continue to fight for "a more equal society".

The "great divide" between the parties had neither narrowed nor changed, he said. He proclaimed Labour to be "the party of the community."

Mr Hattersley pledged that Labour would implement radical constitutional reform, including replacement of the House of Lords by an elected second chamber, and would refer concentration of newspaper ownership to the Monopolies and Mergers Commission.

Promising to bring integrity back to government, he said that all senior Labour appointees would appear before an all-party Commons select committee. "We shall fight the election from the high ground of politics."

Mr Hattersley said that a freedom of information bill would be the first piece of proposed legislation presented by a future Labour government.

Three weeks ago he unveiled a right-to-information bill – almost identical to a blueprint drawn up by the Campaign for Freedom of Information lobby group – designed to replace the Official Secrets Act with a general right of access to official records.

Developing the main theme of his speech, Mr Hattersley said he had grown weary of hearing the Tories talk of freedom "as if it were their invention which they have bottled, patented and marketed under their exclusive label".

BESIDES the big names and razzamatazz, Labour unveiled a secret weapon at its lively weekend rally.

Two Real People – one a commuter, one a doctor – were dragooned in to share the limelight. Set against the purple prose and set phrases of the various shadow cabinet members, the voice of personal experience that they represented left a deep impression and perhaps provided a pointer to future campaign initiatives.

Coyly described as working for "a major financial institution in the City", Mr Alan Bartlett (the commuter) detailed the horrors of the daily trek in by rail from suburban Chislehurst. "My family are getting a bit fed up with the stories I tell them," he said.

Ms Iona Heath, a Kentish Town doctor, described her frustration at getting a recorded message on the 999 ambulance service, while with a seriously ill patient. She condemned fund holding for general practitioners for "giving GPs an incentive to refer their patients privately for the first time in the history of the NHS."

He added that the Tories did not know what real freedom was. Labour would build "the free society that equality brings".

The great choice faced by the country in future years would be how to spend its wealth once the economy has moved out of recession.

"We shall not spend it on tax cuts that most benefit the highest earners," he said. "We shall spend it on building a fairer and freer society, the more equal society that most in this room joined the party to create."

● Ms Harriet Harman, shadow health minister, published figures showing that 15 per cent of National Health Service beds for elderly people needing long-term nursing care had been cut since 1986.

"Under a fourth term of the Tory government there would be no place in the NHS for the people needing long-term nursing care." She hinted that Labour would "change" current arrangements regarding public subsidies for private nursing homes.

Balanced Budget 'may be delayed'

By Philip Stephens

THE Conservatives' objective of a return to a balanced Budget over the economic cycle might take longer than the lifetime of a full parliament, Mr Norman Lamont, the chancellor, acknowledged yesterday.

Defending the £28bn borrowing requirement announced in last week's Budget, Mr Lamont insisted that he was "pretty sure" about the prospect of making progress towards a 20p basic rate of income tax over the next five years.

Interviewed on BBC television's On the Record, however, he declined to give specific target dates either for the elimination of the borrowing requirement or for the Conservatives' income tax target.

Referring to the 20p basic rate, Mr Lamont said: "We have a medium-term objective and I have very clearly stated that it may take longer than one parliament, very probably take more than one parliament."

However, he then added: "I'm pretty sure and hope that we can take some steps towards it. There is every reason to believe that we can."

The introduction of the 20p income tax rate band gave the government additional flexibility because it allowed the chancellor to move in smaller steps towards the end objective.

Mr Lamont said there was no inconsistency between the aim of balancing the Budget and cutting income taxes. But pressed repeatedly on when the deficit would be eliminated he refused to be be specific.

He said: "Cycles vary in their length. The Red Book accompanying the Budget sets out a series of assumptions and and path for borrowing. It shows borrowing at a very low level at the end of a five – six-year period".

The chancellor added that the tax cuts in the Budget amounted to only 0.25 per cent of national income and therefore posed no threat the budget targets, although it might take "some time" to get back to a very low level of borrowing.

Labour's Tory manifesto

■ LABOUR yesterday repeated an old trick when it launched a document it said was "the real Conservative manifesto". Entitled "The Patten Papers", the booklet purports to outline what the Tories would really do in a fourth term.

Among the policies Labour predicts are: value-added tax up to 22 per cent; private insurance schemes instead of employment benefits and pensions; and introducing private "high fee-paying" roads.

So how well-targetted was Labour's black propaganda five years ago?

Well, the party hit the bullseye with its projections of more pit closures, more tax cuts for the rich, the privatisation of water boards, not to mention a poll tax for the whole of Britain.

But in some respects, it flew wide of the mark. The domestic steel industry is far from dead. The unemployment register has not been abolished. Nor have we yet experienced "the end of the National Health Service as we know it."

Can Mr Major stand up?

■ A KEY question in the election campaign is whether John Major will crack.

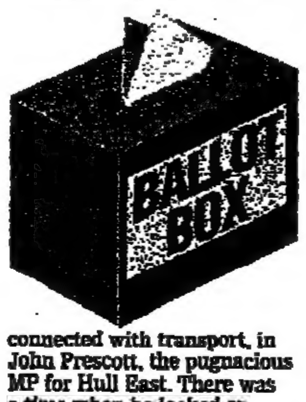
He does not always seem particularly relaxed when under pressure. There is a strain in his voice that sometimes comes close to stridency.

Mr Major came through his interview on The World This Weekend on BBC Radio 4 yesterday well enough, though the questions were relatively soft. On TV there is just a trace of the problem of the young Richard Nixon and the five o'clock shadow: the prime minister sometimes looks as if he is trying to grow a moustache, even quite early in the morning. Such details can matter.

In search of distinction

■ One of the Tory Party's problems is that so many of its ministers seem to look and talk alike: all part of the same Cambridge mafia. There is no-one distinctive like the old transport minister, Ernie Marples: even Norman Tebbit, who had some claim to be different, is on his way out. Yet there is a case for saying that every government needs a Marples.

Labour has one, also



connected with transport, in John Prescott, the pugnacious MP for Hull East. There was a time when he looked an embarrassment to some of his smoother and more revisionist colleagues. But Prescott has stuck to his task and almost everyone must now recognise his blunt tones. In one way, however, he has trimmed, promising to spend money "only when resources allow".

At the weekend, Prescott pledged to take the eccentrically unreliable Docklands Light Railway back into public ownership immediately after the election. There would, of course, be handsome compensation for the London Docklands Development Corporation, the government-sponsored body to which the railway is supposed to be handed over shortly as a first step towards privatisation. Prescott offered £2 instead of the £1 that the LDDC is said to be paying.

Shadow praise for Saatchi

■ Who described Saatchi & Saatchi, the government's publicity advisers, as "the best brains in advertising"? Answer, Bryan Gould, the shadow environment secretary, at a Labour Party rally in London at the weekend. Gould always did seem a bit of a pink Tory.

Military loyalties

■ Followers of the Staffordshire Regiment, destined for amalgamation with the Cheshires if the ministry of defence has its way, have put county loyalties on the electoral agenda. Each candidate in the county's 26 constituencies has received a letter from the Save our Staffords campaign.

"What we are aiming to do is for the 26 selected candidates to go back (to Westminister) knowing that retention of the regiment is a priority in Staffordshire," said Brigadier John Levy, running the campaign from his headquarters in the Lichfield shopping precinct.

In the shop window is a board which will list where each of the candidates stand on the issue: at their meetings, the candidates will face planted questions about the future of the regiment.

The Staffords were part of the UN spearhead which liberated Kuwait. Less well known is that the Lichfield shop headquarters is owned by the Kuwaitis. St Martin's Property Corporation, part of the Kuwait Investment Office, made the shop available.

Thatcher's expression

■ While Margaret Thatcher will be abroad for the last few days of the campaign, her views will appear in the Sunday Express, apparently until the final Sunday before polling. She will also be travelling the country for the next two weeks, still capable of arousing what the tabloids call Magglemania. Surely, however, the loyally Tory Express would not allow any indiscretions?

Scots mark out the battleground

By James Buxton, Scottish Correspondent

SCOTLAND is almost a separate battleground in this general election. In the four-party cauldron of Scottish politics, several conflicts rage, cutting across each other on an electoral map where, even by UK standards, the number of seats won is often far out of line with the votes cast.

These are the two main battles: first, the Conservatives, who have ruled Scotland for the last 13 years with a dwindling minority of the country's 72 MPs, are fighting to preserve their last nine seats against both Labour and the Scottish National party.

Second, the Labour party, the largest with 48 seats, is facing a challenge from the SNP which, holding only five seats, hopes at last to seriously dent Labour's power in the central belt of the country.

Both Labour and the Conservatives need every Scottish seat they can get in a close UK election. Meanwhile along the rural fringes the Liberal Democrats are defending 10 seats, mainly against the Tories.

The most clear-cut issue north of the border is the question of Scotland's constitutional future. Although to most individual voters it is less important than unemployment, the health service, education and the economy, to some it offers the solution to all these things. Scots are being offered independence by the SNP; a devolved Scottish parliament by both Labour and the Liberal Democrats, and the status quo by the Tories.

Though the constitutional issue could decide the outcome in several seats, the election in Scotland will not in itself decide the constitutional outcome. That will be determined by who wins the election at the UK level, with the important exception that if the SNP wins a majority of the Scottish seats (37), it will claim a mandate to negotiate independence.

The Scottish Conservative party could easily suffer disaster. It is unpopular because it has ignored its minority position and imposed on Scotland policies which most Scots did not vote for, notoriously the poll tax. It is seen in Scotland as the English party because it opposes devolution.

Last November the Tories, after losing Kincardine and Deeside to the Liberal Democrats in a by-election, began a high-risk strategy aimed at dividing the opposition.

Mr Ian Lang, the Scottish secretary, insisted that the only constitutional choice was between the status quo and independence. He attacked Labour and the Liberal Democrats and largely spared the SNP. He calculated that if support for the SNP rose, the anti-Tory vote would be redistributed and the Tories, who do not hold a majority of the vote in any of their constituencies, could save seats or even win some from Labour.

A switch from Labour to the SNP could enable the Tories to hold their two most vulnerable seats, Ayr, where they are defending a majority of only 182, and Stirling, where Mr Michael Forsyth, the Scottish education and health minister, has a majority of 548, and even win others.

But the cost of boosting the SNP is that it puts rural Conservative seats at risk. The ripest plum is Mr Lang's own seat in Galloway and Upper Nithsdale (majority 3,673). Next come Sir Nicholas Fairbairn's in Perth and Kinross, and then Mr Bill Walker's Tayside North. At the end of January an ICM poll showed support for independence at 50 per cent, with Labour down to 38 per cent and the SNP on 26 per cent. But backing for independence has since fallen and Labour has recovered to 42 per cent. Last week ICM put the Tories down five points at 18 per cent. If that poll were replicated on April 9, not only would Labour would win Ayr and Stirling, but the SNP would take the three rural Tory seats.

Yesterday's Mori poll for the Sunday Times was slightly more encouraging for the Scottish Tories, putting them on 23 per cent, one point below the SNP. On those figures there could be fewer gains against the Tories (they won 10 seats with 24 per cent of vote in 1987). However given the narrow Tory majorities nothing can be ruled out. Anti-Tory voters can, as in 1987, vote tactically, and back the opposition candidate most likely to win.

Labour enters the campaign with confidence. Backing for a Scottish parliament has recovered to around 45 per cent.

The electoral arithmetic is against the SNP in Labour's heartland. Because Labour has vast majorities in most of its constituencies, the Nationalists need to win around 35 per cent of the vote before they start winning many Labour seats.

Labour's nightmare is that in the last few days of the campaign it could look as if Mr John Major will return to Downing Street on the strength of English votes. Labour voters might then flock to the SNP who would achieve the breakthrough they have craved so long.

Parties' standing

	1987 election votes %	seats	ICM poll %	MORI poll %
Conservative	24	10	18	23
Labour	42	50	42	42
Liberal Democrats	19	9	11	11
SNP	14	3	28	24

Liberal Democrats were called the Alliance in 1987. ICM poll taken March 7-9, MORI poll March 12.
Constitutional issue, MORI poll: Independence 34%, devolution 42%, status quo 25%.

Joe Rogaly

Waiting for a big event

The City can call off its panic this morning. There is no certainty that Labour will win the election. That was last week's fashionable whisper; this week's is that the contest could be won by anybody, or nobody at all. Right now, my money is on nobody. If any single party is to win, something will have to happen. If nothing does – if there is no big event, or no overwhelming argument in favour of voting one way or another – the result on April 9th will reflect the national division of opinion indicated by the polls since well before Christmas: stalemate.

The Conservatives tried to produce a big event/overwhelming argument with last week's Budget. So far it has had no effect on the balance of support for the parties. This could be because its up-front tax-cutting bribe is hardly worth a couple of pints of beer a week to the average voter. There may, however, be a delayed effect. The underlying message of Mr John Major's Budget was defined by the prime minister in a consciously-delivered speech in Torquay on Saturday: "We want low tax and personal choice," said he; "they" – meaning Labour and the Liberal Democrats – "want high tax and state choice."

We and they will not be able to take the measure of a cumulative repetition of this message for at least another week. The opinion poll results published yesterday reflect polls taken three, four or five days previously.

Our FT "what the polls indicate" chart, presented below this column, shows the weighted average of the six polls with the most recent field dates. It is recalculated every time there is a new poll. On this basis, Labour was about 1¼ percentage points ahead of the Conservatives on Friday – half a point down on its pre-budget lead. (Since telephone polls are excluded, the indicated Labour position takes no account of the 2½-point Conservative advantage suggested by Gallup in yesterday's Sunday Telegraph.)

In short, the campaign really does matter. Take the well-remembered events of the final week of the June 1970 election, for which the then Mr Harold Wilson's Big Argument was that the balance of payments had been put right by his government. Now that Britain was strong, it was time to make Britain great, he proclaimed. At first it seemed to work. On the Sunday before the voting the Labour government was about 7 points ahead; one poll gave it something like a 13-point lead.

John Smith's alternative budget hardly sounds like a decider

On that same day Britain fell out of the World Cup. Next morning there was a slight break in what had been excellent early summer weather. Then the balance of payments figures appeared, showing (erroneously, it later emerged) a sudden sharp move into the red.

By the Thursday what had been a 2½-point Labour lead at the start of the campaign had been converted into a 2½-point lead for the Conservatives, whose campaign message was not unlike that of Mr John Major today. To everyone's surprise Mr Edward Heath became prime minister. He asked the previously unheard-of Mrs Margaret Thatcher to be his education secretary.

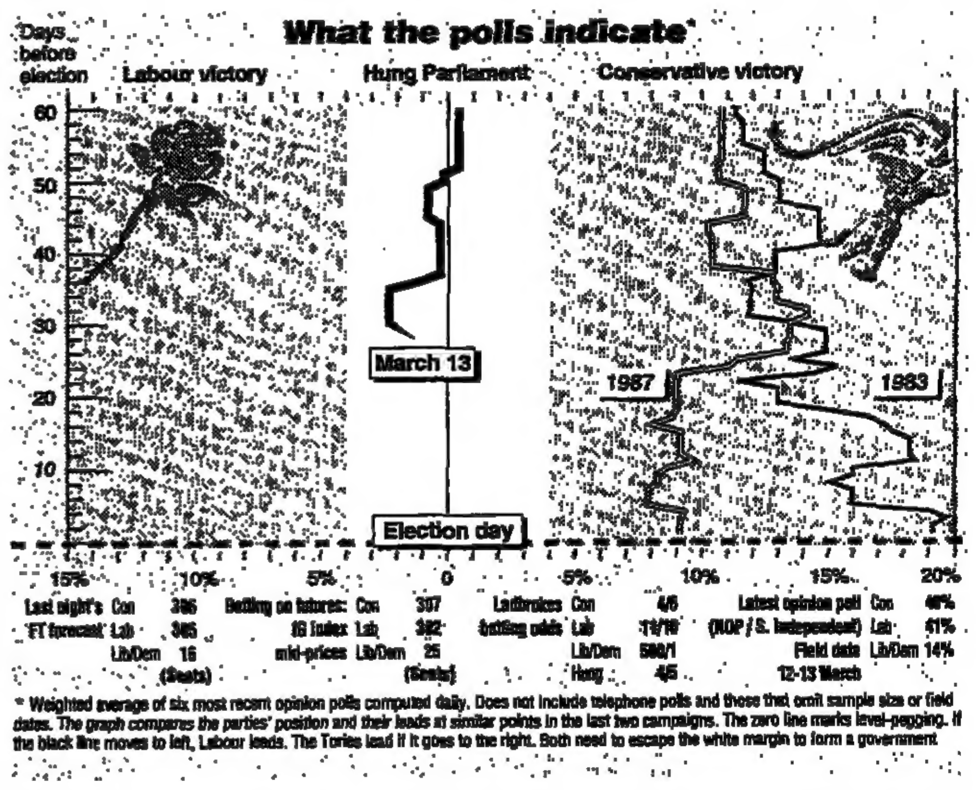
In the February 1974 election the big deciding event may have been the production of an official report saying that the miners, whose strike had caused Mr Heath to call the poll on the wrong day, were in fact underpaid.

This was allowed to run on news bulletins for a whole night before the government refuted it. The Conservatives, who had started 5½ points ahead ended up marginally in front of Labour in terms of votes, but fatally behind in seats won.

So far, most of the potential deciding events of this campaign have been predictable, which rather spoils their effect. Today's example is expected to be the alternative budget prepared by the Labour shadow chancellor, Mr John Smith. Its purpose is to vanquish Mr Major's argument. Labour, it will say, doesn't really want high taxes, except for high earners, and what the Conservatives call state choice Mr Smith will call investment. If the advance notices are right, it hardly sounds like a decider to me.

I can think of two other possibles. One is the movement in the Liberal Democrat vote. Many disgruntled Tories seem to be hiding there. They may come back to the government if their transfer of allegiance is seen to be likely to put Labour in. The other is our FT-Mori poll of executives, whose results are published today. This shows how big business totally mistrusts Labour. At a time of economic uncertainty, even Britain's soft electorate, which is distinctly iffy about business, may be swayed by this.

What the polls indicate*



* Weighted average of six most recent opinion polls computed daily. Does not include telephone polls and those that omit sample size or field dates. The graph compares the parties' position and their leads at similar points in the last two campaigns. The zero line marks level-pegging. If the black line moves to left, Labour leads. The Tories lead if it goes to the right. Both need to escape the white margin to form a government

Labour launches biggest ever billboard campaign

By James Buxton

THE LABOUR party in Scotland, which today launches the biggest billboard campaign in its history, says it is aiming almost its entire election effort at removing the Conservatives from their remaining nine Scottish seats.

Labour says it will not direct much campaigning resources against the Scottish National Party because it believes the nationalists stand little chance of winning seats from it.

The Labour party in Scotland, which holds 48 of the 72 Scottish parliamentary seats, reckons that only by removing the Conservative government from Westminster can Scotland achieve a devolved parliament. The SNP, it argues, is largely irrelevant in this general election because it cannot form a government at Westminster.

Labour believes that the SNP, in spite of standing at about between 24 and 28 per cent in the Scottish opinion polls, will not win many Scottish seats on April 9. "The only threat the SNP pose to us is that they could let the Tories through by taking votes away from us in marginal constituencies," the party said.

However, a sizeable part of Labour's effort is being devoted to the Glasgow Govan constituency which Mr Jim Sillars, deputy leader of the SNP, won from Labour in a spectacular by-election upset in 1988.

This is one of four places where Labour is unveiling an "ad-mobile", a truck carrying a large advertisement. The others are Ayr, where the Tories have a majority of 182; Stirling, where Mr Michael Forsyth, Scottish education and health minister, has a majority of 548, and Edinburgh, where Labour hopes to win two seats.

BBC criticised after changes to talk show format

By Catherine Milton

LABOUR yesterday challenged the impartiality of the BBC's election coverage following changes to next week's edition of the Money Programme made after the Conservative party threatened to withdraw its participation.

Government and opposition treasury and trade spokesmen were to face a five-strong panel of senior industrial, city and trade union figures, with Mr Peter Jay, the BBC's economics editor, in the chair.

The Conservatives said the make-up of the panel was biased towards Labour.

The programme will now go ahead next Sunday in a different format without the panel, which was to have appeared in a total of three pre-election programmes.

The changes follow the cancellation of last week's Panorama film, also presented by Mr Jay, which focused on the government's economic record.

Mr Jack Cunningham, Labour's campaign coordinator, said: "It is now clear that the BBC is being subjected to intolerable pressure from the Conservative party." Labour accused the BBC of succumbing to Tory meddling over Panorama.

A panel member, Mr Martin Taylor, vice-president of Hanson, the multi-national group, said: "I regret that the series of programmes is not now to take place." It is understood that Mr Taylor, a Conservative supporter, believed the panel was balanced.

Conservative Central Office said yesterday: "Two members of the panel have been publicly identified with the Labour party. The political balance was not right."

Both Mr Norman Lamont, the chancellor, and Mr Peter Lilley, the trade and industry secretary, are prepared to take part in the programme in a different format.

Tory objections centred on Mr Gavin Laird, general secretary of the AEU engineering union, and Mr Christopher Haskins, chairman of Northern Foods, the food manufacturing company. Both are broadly sympathetic to Labour. Central Office said it only knew of one member, Mr Taylor, who could be described as sympathetic to the Conservatives.

Central Office said it did not know the politics of the other members of the panel: Ms Janet Cohen, corporate finance director of Charterhouse bank, and Mr David Sainsbury, deputy chairman of Sainsbury, the supermarket group.

The BBC said it regretted the Conservatives' stance but would not change the panel. "We believe the panel would have rigorously tested all three parties.

"The majority of the panel and the BBC felt it would be wrong to subject only Labour and Liberal Democrat representatives to scrutiny." The corporation had therefore reluctantly changed the format.

Mr Laird said: "The Tories are clearly on the run and not interested in independent views such as the panel that the BBC put together."

Life companies are wary of constitutional change

By James Buxton

SCOTTISH life assurance companies stepped up their warnings over the weekend about the dangers they see to their business from constitutional change in Scotland.

The Scottish life companies, which derive about 90 per cent of their business from England and Wales, fear that their business would be seriously damaged if Scotland became independent, while the creation of a devolved Scottish parliament would at a minimum cause damaging uncertainty.

Mr Scott Bell, chief executive of Standard Life, the Edinburgh-based mutual which is by far the largest Scottish life company with assets of £18bn, has written to staff warning that constitutional change could damage trust in the company among its non-Scottish customers.

Mr David Berridge, chief executive of Scottish Equitable, with assets of £5bn, said on BBC television yesterday that if Scotland became independent the company might have to set up a base in England to serve its customers in that country.

Scottish Widows echoed the theme, telling staff that independence "could well affect our ability to keep all our main functions in Edinburgh." Last month the Associated Scottish Life Offices, the trade organisation representing the nine Scottish life companies, called for retention of constitutional status quo.

The life offices' main fear is that in an independent Scotland with a separate currency and regulatory regime, they would be at a disadvantage compared with English companies in selling life assurance in England. Even with a level playing field they fear English financial advisers could play on investors' fears about putting their long-term savings into a foreign company.

The Scottish National party reacted to the life companies' warnings to their staff by saying that the companies were seeking to influence the way their employees vote, and "playing politics with jobs."

Tuning in to TV's coverage

By Raymond Snoddy

LABOUR'S alternative Budget today will be followed this evening by a televised confrontation on BBC's Panorama between Mr Norman Lamont, the chancellor, Mr John Smith, the shadow chancellor, Mr Alan Beith, the Liberal Democrats' economic spokesman.

The three main party leaders will appear separately on subsequent Panorama programmes up to the election, starting with Mr Paddy Ashdown for the Liberal Democrats, Mr Neil Kinnock for Labour and finally the prime minister. The party leaders will also be interviewed separately by Sir Robin Day on Sky News, but with Mr Kinnock, rather than Mr John Major, the last to appear.

BBC1's flagship Nine O'Clock News has been extended by 15 minutes and will feature foreign affairs editor John Simpson assigned to cover Mr Major, foreign affairs correspondent Brian Hanrahan with Mr Kinnock and Carole Walker with Mr Ashdown.

Sir Robin Day is back three mornings a week on BBC1's Breakfast News to debate the campaign issues with a panel of "three wise men" – Lord Jenkins of Hillhead, Mr Denis Healey and Mr Norman Tebbit.

At 9.05am there is a daily Election Call hosted by Jonathan Dimbleby and carried simultaneously on radio and television. The number to ring is 071-799 5000.

Campaign Report will go out three times a day on Radio 4's long-wave network with the latest campaign updates at 10.30am, 3pm and 8pm. David Dimbleby will conduct 40-minute interviews with the party leaders on the three last Mondays of the campaign.

On BBC1 on Sunday evenings, Olivia O'Leary will present The Vote Race, a new series designed to investigate what the party managers and manipulators are up to. A studio audience linked to votemeters will say whether they like or believe the campaign messages.

The main ITN programmes will feature everything from live satellite links from the constituencies to trend polling, focus groups and special reports

Channel 4 will also offer four critiques of the electoral process in its Dispatches documentary series.

The network will also offer a special edition of the Channel 4 Debate on the Sunday before polling day, an extended review of how the campaign is going on Midway Sunday by the team from A Week In Politics and an election edition of Hard News on press coverage of the campaign.

On every weekday evening Comment will be devoted to ordinary voters from around the country discussing the campaign.

Sky will cover the daily morning party press conferences live in Sky News Sunrise.

Sky News Phone-in will be extended daily to question politicians on the issues dominating that day's campaigning, and throughout the day Sky news crews will shadow leading politicians.

Undecided: the Martins' votes are to be won

A family open to persuasion

At least a quarter of voters have yet to make up their minds, or say they might change their minds. Among them is the Martin family who live in the heart of the West Midlands, one of the election's pivotal regions. Paul Cheeseright will write throughout the campaign about how the Martins see the politicians

The Martins need to be persuaded. They owe no allegiance to any political party. Their voting has shifted from election to election. They do not even agree with each other. In 1987, Lyn and Tony went to the polling station in amiable argument: Lyn voted Conservative, Tony went for the Alliance.

This time it looks as if the family again will make up its mind at the last minute. But there is a new element in the TV watching and political discussion at their home in Keswick Road, Solihull, near Birmingham. Lyn and Tony's eldest son, Russell, votes for the first time. "I'm open to persuasion too," he said.

While Solihull is a safe Conservative seat, the family is typical of those in the West Midlands who, because of its number of marginal constituencies, will help to decide who forms the next government. Among the Martins, it looks so far that, of the main party leaders, Neil Kinnock looks as if he has the most persuading to do. Tony finds him "brash". Lyn reckons that even Mrs Thatcher didn't wind her up in the way Mr Kinnock does. Tony said: "There was a party political broadcast the other night and it was the shadow chancellor, John Smith. He, to me, came over 100 times better than Neil Kinnock has ever done. There'd be more votes for Labour if he was leading."

The low key approach of Mr Major has gone down best with the Martin household. Tony observed: "I don't dislike him, to be honest. He was thrown in at the deep end. He was lumbered with the poll tax. If he doesn't get back, a lot of it will be down to the poll tax."

Lyn added: "Like that Mr Smith I watched the other night, Mr Major talks to you, he doesn't dictate to you."

For the moment, Russell, who is 18, used only to government by Thatcher and heir of Thatcher, is a little bemused. "I can't see what it would be like to have Labour or the Liberal Democrats in." He keeps up with the news via the television and the Daily Express but he confesses that he does not have that much interest in politics. "Not particularly. No. To be honest, I don't. I don't think many girls or lads of my age are interested in politics."

Lyn and Tony cannot afford to be detached. The recession has hurt during a period of rising family costs. They both work – Tony is a driver and warehouseman at Michelin, the tyres company, and Lyn is a ward clerk at East Birmingham Hospital. Between them, if Tony works overtime, they earn about £20,000 a year.

Russell is a police cadet - "Ever since I was about five I wanted to be a policeman; I suppose it's every little boy's ambition." - Westley, the second son, is 14, and Keeley, Lyn's and Tony's daughter, is 10. The house, in a street of neat semi-detached homes, is getting cramped.

Lyn and Tony, in their early 40s, have always lived on the south-east side of Birmingham. They started in a council flat, saved for a house and took out a mortgage of £2,500. They took another house and trebled the mortgage, bought their present home and trebled it again.

Interest payments on the mortgage have been the worst part of the recession. Lyn and Tony have also been caught up in changing economic conditions. Tony was made redundant in 1989 although he was never out of a job. The part of East Birmingham Hospital that Lyn works in is taking trust status next year so her job, but not her pay, is being revamped. With all this in the background, Mr Lamont's Budget was significant, but not necessarily significant enough.

"The Budget did us no favours," said Tony. "I admire him [Mr Lamont] in one way in that it wasn't an election budget, but there wasn't enough in it for me personally."

"They give you money in one way and take it back in another," rejoined Lyn.

True, there was some help for businesses. "They've done it too late," asserted Tony.

"But at least they're helping them before it goes any further," argued Lyn.

"Yes, but even the big firms are struggling," Tony came back. "There's not enough in it to influence the way we'd vote." But he is not leaning towards Labour either.

The Martins have a problem. Lyn says she is not leaning towards Labour at the moment. "I suppose because my dad had his own business, only the Conservatives helped them out. My mum and my brother-in-law had council houses. The Conservatives enabled them to buy them."

Yet, looking back over the years since Mrs Thatcher came to power in 1979, her approval of what has been done in the economy is qualified. "We've got our moans and groans, but we could have been worse off."

The "moans and groans" go to the heart of the election debate. They concern health and education and spill into issues such as social discipline.

Lyn has a personal interest in health, not just because she works in a hospital but because she had an operation last November and has been on sick leave since.

"When I was in hospital," she recalled to Tony, "you went mad when I was discharged because they needed the bed for somebody else."

There are also fears about schools. "Schools at one time had a sixth form," said Lyn. "Westley has just taken his options. He's not sure what he wants to do but I think he's going towards being a teacher. But the opportunities - there not being a sixth form at his school - are limited."

Everything in the election debate is, of course, for the good of the country: high taxes, low taxes, more individual freedom, less individual freedom, soft on law and order, hard on law and order – the words cascade. "We've started to listen to them all," said Tony. "At the moment we're a bit like this . . ." and his hands waved vaguely in the air.

Casino owner attempts to assure backers

By David Spanier

LONDON CLUBS, the owner of six London casinos facing the loss of gaming licences, is in talks to reassure its backers, which include banks, institutions and private investors.

The casino group intends to make a vigorous defence of its record before South Westminster Licencing Magistrates next month. It can only do so, however, provided its financial backers – led by the Royal Bank of Scotland – stand firm.

The management of London Clubs is confident that the allegations made by the police and the Gaming Board, in declaring the company "not fit and proper" to hold gaming licences, can be answered.

The immediate danger facing the company is that investors may attempt to dispose of the properties to another operator rather than run the risk of cancellation of licences and the loss of all London Clubs' casinos.

Given the uncertainty over their future, selling the casinos would be likely to realise only a fraction of their real worth.

Investors may stand a better chance of saving their money if London Clubs has the opportunity of defending its licences, as it believes it can, in open court.

If London Clubs was successful in securing renewal of its licences, either at the magistrates' hearing or on appeal to the Crown Court, its future would be very bright.

The action by police and the Gaming Board in applying for cancellation and non-renewal of licences comes as a further blow to the already beleaguered British gaming industry. There is a shortage of the "high rollers" created partly by recession and partly by uncertainty in the Middle East, where many such gamblers come from.

The provisions in the Budget to speed up payment of taxes are a further blow to cash flow.

There is a sense in the industry that the Gaming Board – with a new secretary and about to have a new chairman – is no longer as closely in touch with the industry.

Mystery surrounds helicopter death crash

By Clive Cookson

ELEVEN men are believed to have died when a helicopter crashed in a North Sea blizzard, on what should have been a two-minute trip from a Shell oil platform to an accommodation vessel 200 yards away.

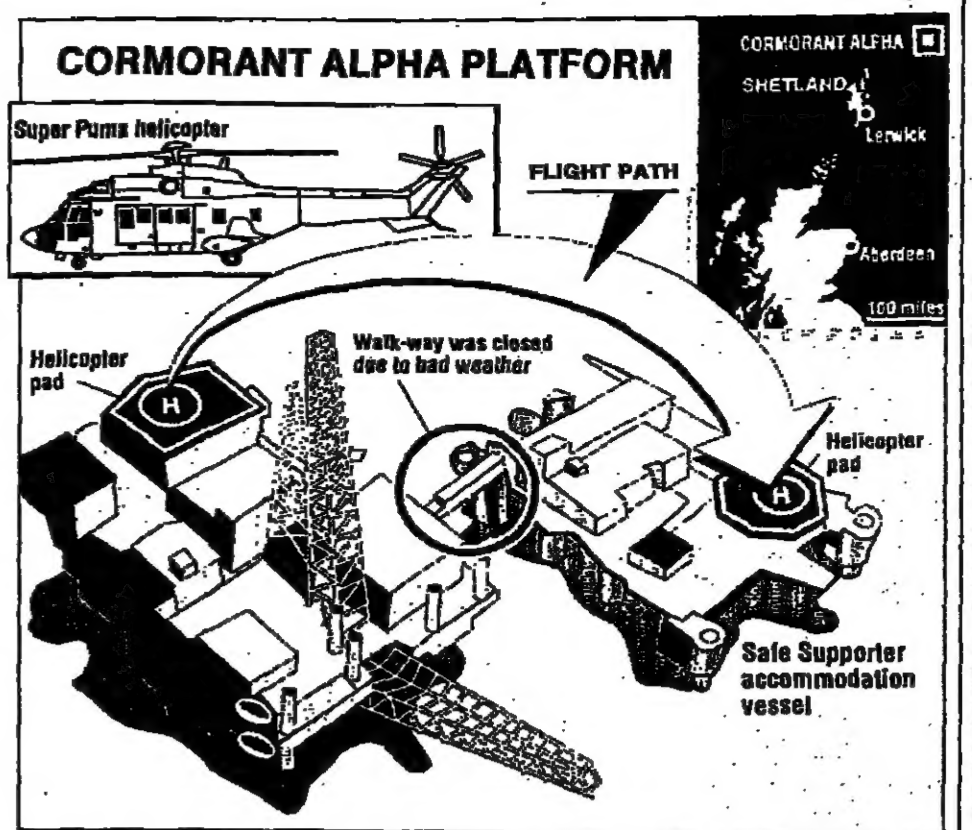
There were six survivors of Saturday evening's accident, the cause of which was still a mystery yesterday.

A specialist diving ship yesterday arrived at the Cormorant Alpha platform, 100 miles north-east of Shetland. It will attempt to locate and salvage the wreckage of the Super Puma helicopter, made by Aerospatiale of France.

Six bodies had been recovered last night and there was no hope of finding any of the five missing men alive.

The helicopter's operator, Bristow, said it had no immediate evidence of technical failure. "The aircraft has an outstanding safety record so far," it said.

The intensive use of helicopters in the North Sea has led to several fatal accidents over the past 10 years. Most serious was the crash of a Boeing Chinook in 1986, which killed 45 men.



Although the weather on Saturday night was poor – with the wind gusting at up to 60mph in snow squalls – Shell said the helicopter flight was within safety guidelines.

Mr Frank Doran, Labour's oil industry spokesman, said: "Despite the fact that pilots are trained to fly in extreme conditions, unless the flight was absolutely necessary I think we would want to question seriously why they were flying in these conditions at all."

Unions representing offshore workers said they would press for an inquiry into helicopter safety. Mr Roger Lyons, general-secretary elect of the MSF offshore workers' union, said: "Shell has refused to discuss helicopter safety with us, and tomorrow I shall go back to the Civil Aviation Authority to tell them this is too important to be left to the company."

Names to discuss further action on Outhwaite losses

By David Barchard

ABOUT 600 Lloyd's Names who were members of the loss-making Outhwaite syndicate 317/661 but did not benefit from the £116m out-of-court settlement negotiated last month have been invited to a meeting in the next two weeks to discuss possible further action.

Mr David Tiplady, of the London law firm D.J. Freeman, said yesterday he was convening an open forum of Names – individuals whose assets support underwriting on the insurance market – to review their options.

His call follows a meeting earlier this month in London of about 80 working Names – those with jobs with brokers or underwriters at Lloyds – who belonged to the Outhwaite syndicate but did not take part in the action to recover some of the £200m losses it made.

The working Names affected by the Outhwaite settlement are in several cases highly placed at Lloyd's and had been hoping to persuade Mr David Coleridge, chairman of Lloyd's, to back an extension of the out-of-court settlement. They are now dismayed to find this possibility receding.

Mr Tiplady, who has instructions from a group of Names involved in the Outhwaite case, said yesterday that he was acting on behalf of a different type of Name from this group.

"The people I represent are overseas Names – Americans, Australians, South Africans – who were unable to take part in the action because in some cases they did not even know that it was happening," Mr Tiplady said.

Members' agents at Lloyd's were advised to pass on details of the action to their overseas Names when it was launched, but it appears some agents did not do so.

A group of the Names not included in the original court action has been advised by counsel that they are not "time-barred" and can pursue the case even though it is more than six years since the Outhwaite syndicate reported its losses.

In the original action 987 Names alleged that negligence on the risks of asbestos by RHM Outhwaite Underwriting and 80 other agencies led to syndicate losses of more than £200m.

ERM effect on pay deals seen as slight

By Michael Smith and David Goodhart

UK MEMBERSHIP of the European exchange rate mechanism has had little effect so far on pay determination, according to Britain's two biggest pay research bodies.

A survey of 185 organisations by Industrial Relations Services (IRS) found that 83 per cent "had not assessed the implications of ERM membership either for their level of pay settlement or for their pay determination process as a whole". Even companies which had assessed the implications found it difficult to say what they were.

Incomes Data Services (IDS), the rival pay analysis body, also concludes in its latest report: "The idea that the discipline of the ERM produces lower pay settlements remains an unproven hypothesis for the present."

IRS, however, holds out the possibility that a "transformation of pay-setting behaviour could have been taking place" thanks to the combination of recession and ERM membership. Distinguishing between the two effects is still impossible, it adds.

The IRS survey found that most employers are planning to settle near the projected inflation rate of about 4 per cent in the six months to August this year.

It also found that only 8 per cent of employers are suffering from skill shortages. But in spite of the recession most organisations are continuing to pay the "market rate" for most jobs.

Both IRS and IDS see a reduction in the number of pay freezes compared with last year. IDS's estimate of average pay settlements is somewhat higher than that of IRS, in spite of being about half the level of a year ago.

IDS says most settlements are bunched between 4 per cent and 5.9 per cent, while the average rise for private-sector managers is 5.3 per cent. It adds: "The fact that most deals match the increase in the cost of living suggests that bargaining is still centrally about motivating staff and protecting living standards."

IDS found pay freezes are only a small proportion of all settlements and there are significant sectors where there have been no earnings standstills. These include cars, food, drink and tobacco, chemicals, public services, energy supply, building societies, insurance and oil.

Companies which froze the pay of employees early last year have not done so again this year. Pay cuts have been extremely rare.

IDS report 613 and IDS Top Pay Unit Review 133. Incomes Data Services, 193 St John Street, London EC1V 4LS.

Bar sets up probe into sex discrimination

By Diane Summers, Labour Staff

BARRISTERS' chambers which fail to recruit and promote women are likely to come under pressure from the bar council to improve their record following the launch today of government-funded research into sex discrimination in the profession.

Women account for fewer than 9 per cent of the nearly 7,000 practising barristers in England and Wales. Men and women now gain legal qualifications in roughly equal numbers.

The bar council has already taken action in an attempt to reduce racial discrimination. In a move considered radical for any of the professions, it last year told barristers' chambers they should aim for at least 5 per cent of their members to be drawn from ethnic minority groups.

The sex discrimination research, which will be carried out by external management consultants, is being funded by a £5,000 grant from the Lord Chancellor's department.

Questionnaires are being sent to practising and non-practising women barristers asking them about all stages of their career.

The bar council said the research would aim to find out:

- Whether women experienced difficulties obtaining pupillages or tenancies at the start of their careers.
- How women were treated in chambers.
- Whether chambers made provision for maternity leave.
- Whether women could come back into practice easily after having children.
- Whether women tended to specialise in areas of law such as crime and family law.

Mr Stephen Sedley QC, chairman of the bar council's sex discrimination committee, said the findings would "enable the bar to develop a code of practice to eliminate and redress any disadvantage experienced by women barristers". Results of the survey are Expected in the summer.

ONLY "honorary men" – women who conform to male patterns of working and domestic responsibility – are currently likely to be able to gain promotion at work, according to a study published today by the Institute of Employment Rights, the labour-law think-tank.

The report's author, Professor Linda Dickens of Warwick Business School, argues that male work is taken as the norm, yet for many women "atypical" work, particularly part-time work, is the norm. Systems of labour law and social security "have similarly taken the male as the neutral standard of the worker, to the disadvantage of women who . . . fall outside various protections," she says.

The best that equal opportunities legislation has achieved is "opening up male structured employment to women on the same terms as men and . . . this underpins discrimination and inequalities in atypical work," the report finds.

There is strong evidence that the extension of legal protection and occupational benefits to part-time and temporary workers would not have an adverse effect on job opportunities for those groups, Prof Dickens argues.

Whose Flexibility? Discrimination and equality issues in atypical work. Prof Linda Dickens. Institute of Employment Rights, 20 Durand Gardens, London SW9 OPP. £5.50 (£20 for commercial organisations).

UK NEWS

Cadbury panel may invoke SE listing rules

By Norma Cohen, Investments Correspondent

COMPANIES wishing to be listed on the London Stock Exchange should disclose the extent to which they comply with best practice in corporate governance, according to recommendations under consideration by a government-backed committee.

The committee on financial aspects of corporate governance, chaired by Sir Adrian Cadbury, recommends tying corporate-governance measures to listing requirements in the second draft of its report to be circulated later this week. The committee is due to meet at the end of the month to discuss the draft and prepare a final version for public comment in May.

Although Sir Andrew Hugh Smith, chairman of the Stock Exchange, sits on the committee, some exchange members are concerned about using listing requirements to force greater disclosure by companies or changes in board structures. They believe that too many requirements could deter foreign companies from seeking a secondary UK listing, undermining London's future as a financial centre.

The Cadbury committee, which includes representatives of the Bank of England and various accountancy, industry and investor bodies, was set up to establish a code of practice for public companies. Publication of its final report, planned for December last year, is now expected in May.

Investor groups have issued several papers on best practice for companies and shareholders and the Cadbury committee recommendation would be the first effort to put teeth to those suggestions. The report will include a long section on the responsibilities of directors, particularly their obligations for the veracity of numbers in the audit report.

The recommendations, however, fall short of what some institutional shareholders had hoped for. Sir Adrian has warned that there may be disappointment over the scope of the report's final recommendations.

Move to audit tendering reported

By Andrew Jack

A LARGE proportion of UK companies are putting audit contracts out to competitive tender, according to a survey by European Accounting Focus, a monthly newsletter.

Many are changing auditor as a result, and all secured a reduction in fees.

The findings come as auditors face increasing criticism for cutting fees.

The survey covered 26 large companies, audited by one of the six biggest accountancy firms. A quarter had annual audit fees exceeding £1.5m.

Nearly one third had put the audit contract out to tender in the last few years, and two thirds changed auditor as a result. Eighty-nine per cent saved at least 20 per cent of the original fee when they did so.

Half the companies gave their auditors a score for overall performance of at least eight on a 10-point scale.

Half said the legal responsibilities of auditors should be clarified by statute.

Survey of UK finance directors. European Accounting Focus, Brigade House, Parsons Green Lane, London SW6 4TH. £150.

Law Society records big fall in legal aid solicitors

By Robert Rice, Legal Correspondent

OPPOSITION to plans to introduce standard fees for criminal legal aid work in magistrates' courts increased yesterday when the Law Society published figures showing a dramatic fall in the numbers participating in duty-solicitor schemes.

In evidence to the Royal Commission on Criminal Justice the society says that on average the number of solicitors taking part in schemes to provide emergency cover at police stations and courts has declined by between a quarter and a half since they were set up in 1986.

The number of solicitors taking part in the Cardiff scheme has fallen from 65 in 1986 to 41 today. In Exeter the numbers have fallen from 45 to 25 and in Norwich from 19 to 1.

The society says several schemes are now under severe strain.

Lord Mackay, the Lord Chancellor, who proposed the standard-fee plan, has said he expects those leaving the scheme to be replaced by young newly-qualified lawyers. The society says the age profile of duty solicitors does not support this contention.

In Birmingham, where statistically the society would expect 16 per cent of those on the duty rotas to be aged between 25 and 29, only 4.5 per cent are in this age band.

Lord Mackay: hoping young lawyers will save the scheme

In addition to the numbers leaving duty schemes, the society says solicitors on 11 of the 120 schemes in England and Wales are taking industrial action by withdrawing from rotas.

The society says the schemes were introduced after the 1984 Police and Criminal Evidence Act because the government felt it was right that suspects should have the benefit of legal advice from a solicitor in the police station. It was therefore up to the government to keep the schemes viable.

Slaughters tops league table of profitability

By Robert Rice, Legal Correspondent

SLAUGHTER and May, the City solicitors, has emerged as the UK's most profitable law firm last year according to a league table of earnings published by the magazine Legal Business.

Slaughter and May had average net profits per partner of £377,000 on a turnover of £113m and profits per fee earner (lawyer) of £65,000. The firm has 542 fee earners.

Its nearest rival was Linklaters & Paines with profits per partner of £349,000 on a turnover of £144m and profits per fee earner of £69,000. Linklaters has 692 lawyers.

The UK's largest law firm, Clifford Chance, not surprisingly had the biggest turnover of £232m. With more than 200 partners and 1,122 fee earners its profits per partner were £278,000.

Most of the top 10 most profitable firms had gross fee revenues of about £1m per partner, according to the legal business statistics.

The magazine says it has had the co-operation of partners in the vast majority of firms in compiling its figures, although there was a "handful" of firms for which it made "informed guesses".

None of the firms included in the league table would admit yesterday to having co-operated with the magazine. Categorical denials of co-operation were given by Slaughter and May, Freshfields, Lovell White Durrant, Allen & Overy, Linklaters & Paines and Clifford Chance. No firm was prepared to comment on the accuracy of the figures, however.

The magazine stresses that profits per partner did not represent take-home pay. There are a few senior partners in London firms who earn more than £1m a year but in general earnings for partners in the top firms range from about £200,000 a year for junior partners to £500,000 for senior partners, it says.

Most large law firms operate a "lockstep system" which means their earnings are capped after a certain number of years in the partnership. Also, in many firms partners are expected to plough back some of their "draw" to provide working capital.

THE TOP TEN LAW FIRMS RANKED BY PROFITS PER PARTNER 1991

Firm	profits per partner	Gross fees	number of lawyers
1 Slaughter and May	£377,000	£113m	542
2 *Linklaters & Paines*	£349,000	£144m	692
3 Allen & Overy	£344,000	£ 94m	519
4 Lovell White Durrant	£321,000	£111m	599
5 Herbert Smith	£312,000	£ 89m	448
6 S J Berwin & Co	£302,000	£ 27m	151
7 Freshfields	£293,000	£115m	556
8 Macfarlanes	£291,000	£ 26m	175
9 Simmons & Simmons	£281,000	£ 64m	444
10 Clifford Chance	£278,000	£232m	1,122

The table gives a figure for the average net profit generated per equity partner within a firm. Average profits per equity partner are not the same as take home pay.Source: Legal Business, March 1992

National Savings up £393m last month

By David Barchard

THE ROLE of National Savings as a source of government funding for the budget deficit doubled in the past year according to figures published yesterday.

National Savings contributed £2.64bn in the first 11 months of the financial year, up from £1.24bn in the same period a year ago.

There was a substantial increase last month, with National Savings contributing £393.2m to government funding, up from £334.7m in January.

The best-selling product was, as in previous months, fixed-interest savings certificates, which contributed £198m net, but there was also a net addition of £82.4m from index-linked savings certificates.

Four products – investment and ordinary accounts, and yearly and save-as-you-earn plans – reported a net withdrawal during the month.

The rise in savings follows an advertising and marketing campaign by National Savings. Sales through the two main agents of National Savings, the Post Office and Girobank, increased in the wake of the campaign.

The chancellor drew attention in the Budget last week to the important role that National Savings would play in helping fund the £28bn public sector borrowing requirement next year. He said he would launch a new National Savings product, a guaranteed growth bond, in the summer.

Britons increase holidays at home

By Michael Skapinker, Leisure Industries Correspondent

THE BRITISH took more of their holidays in the UK last year and made fewer trips abroad, according to a survey published today by the British Tourist Authority.

The number going on more than one foreign holiday, however, rose to its highest level ever.

The number of holidays taken abroad fell 2 per cent to 20m last year. The foreign holiday market was hit both by the recession and by the Gulf war. The number of holidays taken by people who make more than one foreign trip was 5.3m, up 5 per cent on the previous year.

The number of Britons taking holidays in the UK of four nights or more rose 5 per cent to 34m.

British spending on UK holidays rose 13 per cent to £4.7bn. Spending on foreign holidays rose 6 per cent to £11.3bn.

The average cost per person of a foreign holiday was £550, compared with £137 for a holiday in the UK.

The number of holidays taken in the UK fell in the late 1970s, but has remained fairly stable throughout the past decade. In 1975 40m holidays were taken in the UK by Britons. This had fallen to 36.5m by 1980.

Holidays abroad increased from 8m in 1975 to a high point of 21m in 1989.

Mortgage lenders are criticised by valuers

By David Barchard

SOME mortgage lenders are requiring valuers to pass them mortgage business as a condition of being placed on the lender's valuation panel, the Royal Institution of Chartered Surveyors says today.

In its response to criticisms from the Office of Fair Trading about the way the valuation market is working, the institution warns that the quality of valuation advice could be at risk.

It says a voluntary code of practice will not work as it is often impossible to prove claims that a lender has asked for mortgage business and it would be difficult to enforce the code. The panels of valuers used by lenders, however, are falling dramatically in size and some lenders will not accept a valuation unless it comes from a valuer on their panel.

The institution says new legislation is the only solution. It is seeking backing from the Office of Fair Trading to get a change in the law.

● Up to £5m is to be raised by the London Repossessions Fund, a Business Expansion Scheme company, to increase the number of student beds in London while taking advantage of the changes to BES regulations in the Budget.

Until now BES companies have not been allowed to buy houses where the tenant is known in advance, making it impossible for them to participate in mortgage rescue schemes.

The BES will buy some homes from their owners and operate a tenancy agreement with them, allowing the owner to buy back the house after five years.

Chairmen of state-owned companies face an uncertain spring and summer in Paris as their contracts run out. **William Dawkins** reports

The French disconnection

Many of France's top managers are bracing themselves for a spectacular game of musical chairs, umpired by the government.

The game will open in the spring and summer and trickle on to December, as the chairmen of some 45 state-owned companies reach the end of their three-year terms.

At stake is the senior management of such international heavyweights as the car-maker Renault, Bull, the computer group, Thomson, the electronics company, the chemicals group Rhône-Poulenc and aluminium producer Pechiney, among others.

Preparations are already under way. Over the next month or two, the small circle of senior civil servants and cabinet ministers responsible will draw up the list of those they think should stay, move to another state company, or make way for new players.

The final decisions rest with President François Mitterrand, perhaps not the ideal umpire for this game given his well-known lack of interest in industrial matters.

All this might seem out of kilter with the increasingly competitive markets in which these companies compete. Yet it is only the most startling example of the public administration's role in who runs corporate France.

Its influence is almost as strong, though not explicit, in who gets the top jobs in the private sector.

Here the decisions are made through the complex networks of public administration élite, allied for life by their common education at the same prestigious civil service colleges, or *grandes écoles*.

Many senior French executives openly criticise the influence of the state and its institutions in the top jobs, a reflection of the more liberal mood in French boardrooms in recent years, as well as the pressure from talented executives who did not happen to go to the right schools and colleges.

The extent to which the state bias in French management might be at a disadvantage against foreign competitors is analysed in detail in a recent comparison* of the method of selection of the chairmen of the top 200 French and German companies.

It was carried out by Michel Bauer and Bénédicte Bertin-Mourot of the CNRS state research centre, for leading headhunters Heidrich and Struggles.

The study says that France's public service stars are better equipped to play at corporate "monopoly" than to be professional entrepreneurs. They also tend to be hierarchically remote from their staff and have less experience of their companies and industries than their German counterparts.

"For companies seeking economic efficiency in a competitive environment, the French model looks like . . . a real handicap," it concludes.

The study shows that just over 44 per cent of France's top managers come from a predominantly state background, whether it be a *grande école*, ministerial cabinet, *grands corps* – an institutionalised civil service clan – or political friendship.

This is six times the level in Germany, where a background in industry is the dominant factor for nearly two-thirds of top managers.

The weight of the *grande écoles* alone is impressive: the three top schools produce more than half of France's top managers, yet the gilded trio – Ecole Nationale d'Administration, the Polytechnique and the HEC business school – produce only 800 graduates annually, a tiny sample from which to draw so much of the business élite.

The study does not doubt that the *grandes écoles* are good at producing stars, but it points out that German companies by definition choose their top people from a wider field and so have a better chance of finding exceptional managers.

In Germany, no college dominates, though more than half of the top managers have doctorates, equally split between law, economics and sciences.

German companies are praised for favouring managers who have risen through the business after an industrial apprenticeship, are matey with their colleagues and know their industries. Senior German executives know they have a chance of getting to the top if they do their jobs well, a healthy system.

But their French counterparts' knowledge that the top job will probably go to an outsider parachuted in from the public administration is a serious drag on motivation. This has a knock-on effect all the way along the hierarchical chain, it says.

On the whole, French public sector job allocations have in recent years been made more on the players' management merits than was the case a decade ago.

Few would criticise the professionalism of such as Alain Gomez at Thomson, Francis Mer at steel maker Usinor Sacilor, Jean Gandois at Pechiney, or Loïk Le Floch-Prigent at Elf Aquitaine.

Yet it is not unknown for political patronage to have some influence and this is an especially dicey factor to predict today, when the Socialist government is in serious trouble.

It is no surprise that many public sector chairmen privately detest the three-year term rule, on the grounds that they hardly have time to get used to the job before the next reshuffle. This, they complain, is no recipe for inspired management at a time when their markets are dominated by decisions made in the US, Germany or Japan, rather than in Paris.

Moreover, several state companies have recently picked up powerful foreign partners, who find the French system odd.

So it is that Pehr Gyllenhammar, chairman of Swedish car-maker Volvo, is proving one of the main sources of pressure for state-owned companies' boards, rather than the government, to choose chairmen.

He argues that Volvo, as owner of 15 per cent of Renault since 1990, deserves a say in the choice of successor to Raymond Lévy after he retires as Renault chairman in May. An interesting row could be in the making here.

A similar situation could be imagined at Bull, where NEC, the Japanese electronics company, became a small minority shareholder last year, and which is just about to sell another stake to IBM.

The French government, cautiously open to change, is reflecting on limited reforms, like extending chairmen's contracts from three to five years, increasing worker consultation and inviting more professionals to replace the public worthies on state company boards.

The current chairmen's mandate is "too short in relation to what is going on in the rest of the world," admits Dominique Strauss-Kahn, industry minister.

One of the many other revealing comparisons in the Heidrich and Struggles study shows that 36 per cent of the chairmen of France's top 200 companies were catapulted straight into the job with no previous experience of the company, as against 16 per cent in Germany.

Moreover, 32 per cent of Germany's top managers worked their way up from junior executive jobs, as against just 7 per cent for France's top managers.

Of course, there are bound to be exceptions – and French management methods are changing fast. The point is that French management is still more different than many people think.

* *"Les 200" en France et en Allemagne - deux modèles contrastés de détection-sélection-formation de dirigeants de grandes entreprises. CNRS et Heidrich and Struggles, 112 Avenue Kléber, F-75116 Paris. Tel 4434-1700.*

Fresh start to be made in China

By Alexander Nicoll

How do you go about introducing concepts such as productivity, marketing and incentive in chronically inefficient industries within a centrally planned economy?

China's state-owned industry is hugely overmanned, churns out products regardless of whether there is a market, and is enmeshed in bureaucracy. It is one thing for the communist government in Beijing to say that it is bent on economic reform, but quite another to implement change in the factories.

This should be fertile ground for management consultants – but only those willing to put up with frustrations to earn their fee. One now learning the ropes is Knight Wendling, which is Swiss-based but part of the Lester B Knight & Associates group of Chicago.

Knight Wendling won a two-year contract, supported by a World Bank loan, to help restructure Shanghai's electronic components and scientific instruments sectors. Since last November, it has had a team operating there under the direction of Robert Mackenzie, who is based in London but travels to China frequently.

The industries provide lifetime employment. Sales and marketing were unknown since their entire output was handed over to the state, which dealt with any exports.

Plants typically ordered stock requirements for the year ahead. The concept of competition was also unknown, though poor planning has in recent years led to products competing with those of other Chinese factories.

There was little co-operation between plants, so that one factory had a modern sheet metal press operating only four or five hours a day while its neighbours within the same corporation either sought to make do with inferior technology, or bought in their needs from outside.

A number of levels of bureaucracy – the factory management itself, the corporation of which it is a part, the Shanghai bureau which oversees the industry, and the Shanghai municipal authorities – have been free to interfere in the operation of plants.

Knight Wendling's task is to help the Chinese to correct all of this and more in factories producing a wide range of products, some of which – like microscopes and camera lenses – are of good quality and have a reasonable potential market, and some of which do not.

It is working with the Shanghai bureaucracy to establish a simpler organisational structure and chain of responsibility. But it must always ensure that structural changes are understood at every level. Within the plants, Knight Wendling has to accept that employees cannot simply be made redundant, even though the factories already employ thousands where hundreds would do, and upgrading of technology would reduce the required workforce further.

Part of its approach is to designate a model factory and, within it, a model cell. In them, it attempts to demonstrate best practice and to set proper manning levels, so that financial results of model units can be produced without accounting for unnecessary employees, even though the results for whole plants will still reflect them. A key element is the attempt to introduce incentives, another unknown concept.

Every small step requires a round of meetings, which tend to be attended by many officials. "One-on-one meetings are virtually impossible," says Mackenzie. This can make it difficult to get over ideas about management and responsibility. However, workshops are organised to develop management skills and Mackenzie says some managers have real potential.

APPOINTMENTS

First among rivals

David Hagan, former founder and managing director of Tullet & Tokyo Equities, is taking a non-executive seat on the board of his old rivals First Equity, another equity inter-dealer broker, after "falling out" with Tullets a year ago.

"Tullets was immensely successful and this in itself can lead to stresses and strains," says Hagan who, since he left, has been working on a lengthy but abortive attempt to buy money brokers Exco from the British & Commonwealth administrators.

Now the offer for Exco – an £85m bid backed by Electra and the fund management arm of Phoenix Securities which would have put Hagan in as Exco chief executive – has been declined and he is looking around for other opportunities. "At 45 I am not quite old enough to embark on a career as a non-executive director."

He calls First Equity, which was set up in February 1987 five days before the equity inter-dealing broking arm of Tullets, "a very impressive little outfit. They faced pretty mighty opposition, including from me, at the beginning. But there is now no clear market leader."

He was also attracted by the company's "interesting institutional shareholders" – which happen to include Electra.

Paul Henry, joint managing director of First Equity, says of his old rival's appointment: "Attitudes have matured a lot. We have a healthy respect for one another now."

■ Coutts & Co, NatWest's upmarket private banking business, continues to reshuffle its senior management team. Jack Wilson, aged 56, has become senior manager of Coutts's city office at 15 Lombard Street. He joined Coutts in 1952 and has spent the past 14 years managing one of its branches in the Strand. He replaces Christopher Rashbrook, aged 53, who is retiring after 36 years with the bank.

■ J. HENRY SCHRODER WAGG & CO has increased its tally of directors to 67 by appointing Rupert Birch, Sriram Chari, Peter Hennessey, Arnaud Limal and The Hon Nicholas Smith. Clive Boothman and Peter Wolton are to be directors of Schroder Investment Management. Elizabeth Goldhill is appointed first vice-president of Schroder Capital Management International Inc and Ltd.

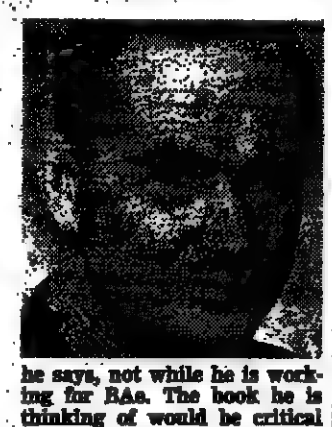
BAe plays its Gulf card

British Aerospace is strengthening its firepower in its battles with the Ministry of Defence by securing the services of Air Chief Marshal Sir Patrick Hine, the overall commander of British forces in last year's war against Iraq.

Faced with cutbacks in military orders and increased competition, the company is playing its Gulf card – the goodwill gained through the role its products and support personnel played in the campaign - for all it is worth.

"Paddy" Hine, who ran the UK command bunker at High Wycombe, retired from his post at RAF Strike Command in August. He actually began work at BAe's Strand headquarters in January, but his appointment as military adviser has only now been made public. He succeeds another Air Chief Marshal, Sir David Evans, who retires at the end of the month.

He is one of the few Gulf commanders not writing a book about the war – that is,



he says, not while he is working for BAe. The book he is thinking of would be critical of some aspects of the handling of the campaign. Since the MoD is BAe's chief customer, he believes "it is better left for the time being". He sees his job principally as helping BAe deal with the ministry, using his experience of how it works and thinks. At 59, he foresees four to six years at most in the job. "It depends if my face fits," he says.

THE WEEK AHEAD

ECONOMICS

Sensitive statistics could cause jitters in Tory ranks

With the general election campaign in Britain underway, this week offers some politically sensitive statistics likely to cause jitters among government ranks.

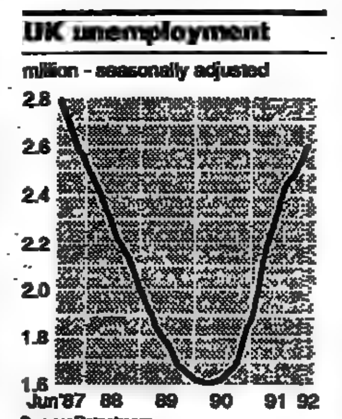
A repeat of last month's 53,000 surge in unemployment is not predicted for Thursday although the City forecast of a 35,000 increase will be bad news for Conservatives campaigners.

Highlights of the week ahead, with the median of city forecasts in brackets from MMS International, a financial information company, include:

Today: Japan, revised January industrial production; Canada, January wage settlement increases (up 2.8 per cent); France, February consumer price index (up 0.2 per cent on the month, up 3 per cent on the year); Sweden, February trade balance (SKr4.5bn).

Tomorrow: UK, February PSBR (£250m surplus), January industrial production (down 0.2 per cent), January manufacturing output (down 0.2 per cent on the month, down 3 per cent on the year); US, consumer price index (up 0.3 per cent), excluding food and energy (up 0.3 per cent), February housing starts (1.19m), February building permits, February industrial production (up 0.7 per cent), February capacity utilisation (78.5 per cent), February real earnings, fourth quarter current account; Germany, first round of engineering wage talks with Baden-Wuerttemberg IG Metall; Australia, fourth quarter real GDP (up 0.4 per cent), fourth quarter gross national expenditure.

Wednesday: UK, February



retail sales (flat); France, January industrial production (down 0.7 per cent); Finland, parliament votes on government EC application plan; US, Fed releases Beige Book for March 31 FOMC meeting; Australia, January housing finance (up 5 per cent).

Thursday: UK, February unemployment (up 35,000), February vacancies, January average earnings (up 7 per cent), January unit wage costs – 3 month average year on year - (up 3.7 per cent), fourth quarter real personal disposable incomes, fourth quarter savings ratio, February M0 (up 0.1 per cent on month, up 2.1 per cent on year), February M4 (up 0.5 per cent on month), February M4 lending (£2.5bn), final figures for fourth quarter GDP; Germany, fourth round of public sector wage talks, regular Bundesbank council meeting – no change in rates expected; US, January merchandise trade balance (-$5.5bn), January merchandise exports ($36.5bn*), imports ($41.5bn), for week ended March 9, M1 ($2.6bn), M2 ($2.1bn), M3 (-$9bn), initial claims for week ended March 7 (444,000); Canada, January merchandise trade balance (C$700m surplus), January merchandise exports (up 1.2 per cent), imports (up 0.8 per cent).

Friday: UK, February retail prices index (up 0.4 per cent on month, up 4 per cent on year), excluding mortgage interest payments (up 5.4 per cent on year); Germany, Metall Employers (Gesamtmetall) meet with DAG union for wage talks with white collar metal sector employees; US, February Treasury budget (-48.3bn), March Philadelphia Fed index; Canada, February consumer price index (up 0.3 per cent on month, up 1.9 per cent on year), excluding food and energy (up 2.6 per cent on year), seasonally adjusted (up 0.2 per cent); Australia, January export price index; Japan, Vernal Equinox – all markets closed.

During the week: Germany, February producer prices index (up 0.2 per cent), February wholesale price index (up 0.2 per cent), February M3 from fourth quarter base (up 7.6 per cent); Holland, January trade balance; Switzerland, February producer prices index, February wholesale price index (down 0.2 per cent), February industrial production (down 0.7 per cent on year); Japan, February money supply (up 2.2 per cent on year), fourth quarter GNP (up 1.5 per cent).

Emma Tucker

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Agricultural Mortgage 7½% Deb. 91/93 3.875pc.
Brunswick 11cts.
Chester Waterworks 4.2% (Fmly. 6%) Max. 2.1p
Do. 3.15% (Fmly. 4½%) Prf. 1.575p
Citicorp O'seas Fin. Corp. Gtd. Flg. Rate Nts. 1994 $15.17
Daejan Hldgs. 12p
Edinburgh Inv. Tst. 3.65% Prf. 1.825p
FPL 60cts.
Honeywell 41.25cts.
Leeds Permanent Bldg. Soc. Flg. Rate Nts. 1995 £265.84
Lloyds Bank Serv. C Var. Rate Sub. Nts. 1998 £268.91
Louisiana Land & Expl. 25cts.
Petaling Tin Berhad 10sen
Resort Hotels 1.2p
Smith (David S) 2.78p
TR Smaller Co's Inv. Tst. 1.5p
Thompson Corp. 11.3cts.
Treasury 2% IL 1996 £1.97
■ TOMORROW
Hoskyns 1.65p
Limited Inv. Tst.
Sotheby's Class A (Reg.) 15cts.
■ WEDNESDAY MARCH 18
Inco 25cts.
Laurel Intl. Invs. NV Gtd. Flg. Rate Nts. 1997 $300.17
Saleland 0.14p
Scottish Hydro-Electric 3.25p
Do. (Reg. FP) 3.25p
Do. (Reg. 100p Pd.) 3.25p
Do. (Reg. 170p Pd.) 3.25p
Sherill 0.75p
Sumitomo Chemical 6.4% Bds. 1999 3.2pc.
Do. 6.35% Bds. 1997 5.175pc.
■ THURSDAY MARCH 19
Birmingham Midshires Bldg. Soc. Flg. Rate Nts. 2005 £53727.4
Christiania Bank OG Kreditkasse Floating Flg. Rate Nts. 1997 $1005.42
EFM Java Tst. 0.08p
GR Hldgs. 25.4p
Leeds Permanent Bldg. Soc. Flg. Rate Nts. 1996 £273.5
Nationwide Bldg. Soc. Sub. Flg. Rate Nts. 2004 £279.71
NTT 10¼% Bds. 2001 5.125pc.
Oil & Natural Gas Commission Gtd. Flg. Rate Nts. 1996 $300.17
Pfizer 37cts.
Ransomes 3.85% Prf. 1.925p
Thames Water 9½% Cnv. Sub. Bds. 2006 4.75pc.
■ FRIDAY MARCH 20
Alexanders Hldgs. 1p
Do. A 1p
American Intl. 12.5cts.
Arab Banking Corp. (B. S. C.) Flg. Rate Nts. $297.01
Avent Associates 0.5p
Bank of Montreal 6½% Nts. 1996 3.0625pc.
Bwan 32.5cts.
Exchequer 10½% 2005 5.25pc.
Genbel Invs. 15cts.
Greenfriar Invs. 4p
Group Dev. Capital Tst. 0.24p
Investment Co. 0.375p
Midland Bank Und. Flg. Rate Prim. Cap. Nts. (Sep. 1985 Iss. $303.33
Riggs National Corp. Flg. Rate Sub. Nts. 1996 $152.71
Standard Chartered Und. Prim. Cap. Flg. Rate Nts. C$285.57
Yorkshire Television 5.7p
■ SATURDAY MARCH 21
Alcan Aluminium 15cts.
■ SUNDAY MARCH 22
Exchequer 13½% 1992 6.75pc.
Landeskreditbank Baden-Wurttemberg 13% Nts. 1996 6.5pc.

RESULTS DUE

BAT Industries, the tobacco and financial services conglomerate, is expected to report a 9 per cent increase in annual pre-tax profits to about £1.05bn on Wednesday.

Eagle Star, its insurance subsidiary, is still suffering from heavy losses on its domestic mortgage indemnity business. Analysts will be interested to hear how higher premiums are affecting other underwriting business – for motors, buildings and house contents. However, the final dividend should benefit from the strength of the tobacco business, which is enjoying increasing market share in the US and higher prices in Brazil.

Guinness will produce another creditable set of figures on Thursday. Forecasts of pre-tax profits for 1991 range from £947m-£970m, the top end representing 15 per cent growth in the year. The rate has slowed, though, from 23 per cent in 1990 and 33 per cent in 1989. Shareholders will be rewarded with a dividend increase of about 12 per cent on last year's total of 9.7p.

WPP, the world's largest marketing services group, is likely to unveil today a halving of pre-tax profits for 1991 to about £45m. Revenues are likely to be down slightly to £1.26bn (£1.2bn). Staff levels have been trimmed by 8 per cent during the year.

WPP is believed to have been seeking additional financing of some £100m from its bankers, who are interested in seeing some disposals, particularly of the US agency Scali McCabe Sloves.

Guardian Royal Exchange on Thursday will follow the loss-making trend of the insurance sector. Forecasts range up to £250m for 1991 compared with a year-earlier loss of £157m. Some analysts believe it will maintain its 11.9p total dividend for the year but that cannot be taken for granted after Royal Insurance's decision to omit its final.

Wimpey is expected to turn in tomorrow a loss for the year ended December of around £20m against pre-tax profits of £43.3m a year earlier. The final dividend is likely to be cut to make a total for the year of 8p (10.5p).

Against the backdrop of the deep construction industry recession, Wimpey will take a £12m provision on its Channel Tunnel involvement plus write-downs on land and property.

Although **Delta**, the electrical cables and engineering group, has a reputation for limiting the damage of recession., pre-tax profit in 1991 is expected today to be nearly 30 per cent down at between £60m and £65m .

It has not been able to buck the UK trend, although its cashflow performance is thought to have been strong. Growth in the group's spirits businesses will have run at about 11 per cent last year (15 per cent in 1990). Beer will have been more impressive, thanks mostly to Guinnesses Spanish acquisitions.

One intriguing question is likely to be settled this week. Has Warren Buffett, the legendary US investor, built up a Guinness stake of a few percentage points?

Each point is worth about £100m. US and UK market watchers believe he has and expect confirmation in the annual report of Berkshire Hathaway, his main corporate vehicle.

Such an investment would be highly uncharacteristic. He has never bought a foreign stock before, believing he should stick to the US stocks he knows inside out. But on the other hand, he is attracted to companies with strong brands and cashflow such as Coca-Cola.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Intercare, St. James's Club, Charlotte Street, Manchester, 12.00
BOARD MEETINGS:
Finals:
Alliance Trust
Antofagasta
BPP
Delta
Fisher (James)
GKI
ISA Intl.
JIB
Mayborn
Metalrax
Needler
Rugby
Sidlaw
WPP
Wilson Bowden
Interims:
Honeysuckle
MAI

■ TOMORROW
COMPANY MEETINGS:
Eurotherm Intl., Beach Hotel, Worthing, West Sussex, 12.00
BOARD MEETINGS:
Finals:
Celestion
Dartmoor Inv. Trust
Evans Halshaw
Greenby
Henderson Highland Trust
Peek
Refuge
River & Merc. Amer. Cap. & Inc. Tst.
Watmoughs
Wimpey (George)
Interims:
Scholes
Trace Computers

■ WEDNESDAY MARCH 18
COMPANY MEETINGS:
Baldwin, The Registry, Royal Mint Court, E.C., 10.00
EFM Java Trust, 4 Melville Crescent, Edinburgh, 3.00
BOARD MEETINGS:
Finals:
Automated Security
BAT Inds.
Bowthorpe
Bristol & West Bldg. Soc.
Britannic Assurance
British-Borneo Petroleum
Clyde Petroleum
Law Debenture
Lionheart
Marley
Matthews (Bernard)
Portals
Rentokil
Sanderson Murray & Elder
Steel Burrill Jones
Try
WSP
Interims:
European Leisure
Golden Hope Plantations
Maunders (John)

■ THURSDAY MARCH 19
COMPANY MEETINGS:
Drayton Far Eastern Trust, 11 Devonshire Square, 11.00
Greenfriar Inv., 3 Finsbury Avenue, E.C., 2.30
Kleinwort Charter Inv. Trust, 20 Fenchurch Street, E.C., 12.30
River & Mercantile Trust, New Connaught Rooms, Great Queen Street, W.C., 12.00
Updown Inv., 12 Tokenhouse Yard, E.C., 12.00
Warner Estate Hldgs., Claridge's, Brook Street, W., 12.15
BOARD MEETINGS:
Finals.
Arjo Wiggins Appleton
BSG Intl.
Caird
Cattles
Davis Service
ECU Trust
Ferrum
Guinness
Kwik-Fit
Johnson Group Cleaners
Laing (John)
Manders
Smith & Nephew
Stag Furniture
Thames Television
Thornton Asian Emerging
UniChem
Vinten
Wassall
World of Leather
Wyevale Garden Centres
Interims:
Foreign & Colonial High Inc. Trust
LASMO
Minorco
Scottish Asian Inv.

■ FRIDAY MARCH 20
COMPANY MEETINGS:
Cardiff Property, 56 Station Road, Egham, Surrey, 12.00
Davenport Vernon, 135 Bishopsgate, E.C., 12.00
Gardiner, Citigate Communications, 7 Birchin Lane, E.C., 12.00
Hotspur Invs., 12 Tokenhouse Yard, E.C., 10.30
Kemp (P E), 15 Lincoln's Inn Fields, W.C., 9.15
Newman Tonks, National Motorcycle Museum, Coventry Road, Bickenhill, West Midlands, 12.00
Beacon Hldgs., 38 West Ferry Road, E., 12.00
Sountrace, Winchester House, 10 Lower Richmond Road, S.W., 12.00
Ward Hldgs., 82 Cavendish Street, W., 2.30
BOARD MEETINGS:
Finals:
Anglia Television
Beta Global Emerging M.
Martin Currie Pacific
Molins
Interims:
Attwoods
Halstead (James)

Company meetings are annual general meetings unless otherwise stated.

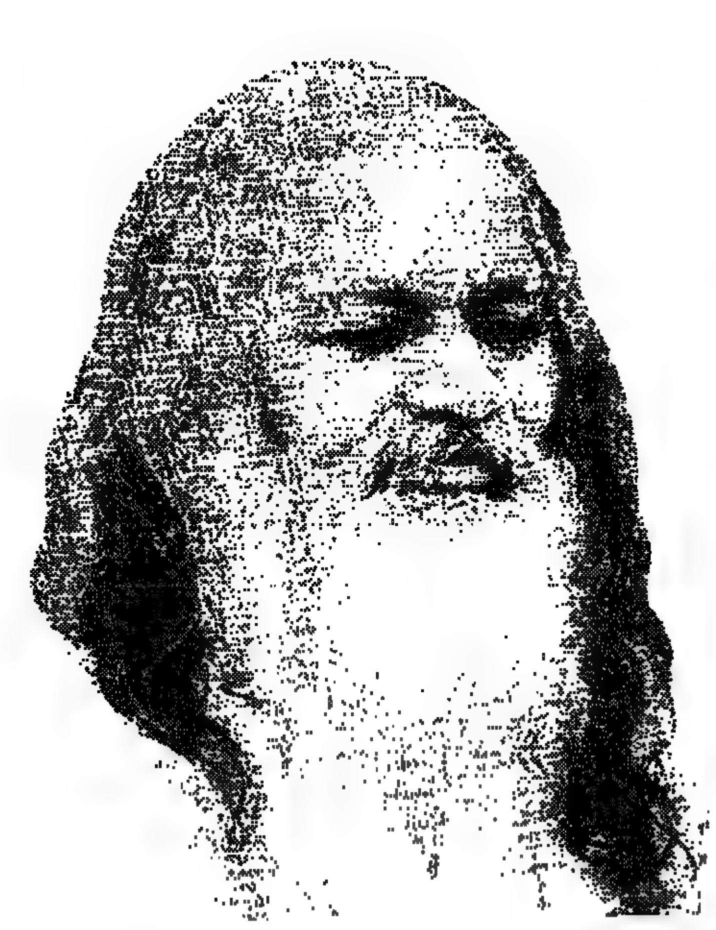
Modern Science

THE CONSTITU

The Source of All Order and

DISCOVERED THROUGH MAHARI

Maharishi invites the people and government of
of the Universe, and thereby raise governmental



HIS HOLINESS
MAHARISHI MAHESH YOGI

Founder of:
The Transcendental Meditation and TM-Sidhi programme; Maharishi International University, USA; Maharishi Vedic University, India, Russia, and Holland; Maharishi's Vedic Science and Technology.

'We are now in possession of that supreme knowledge of Natural Law—the scientific knowledge of the source of nature's perfect order and how to access it—that can bestow perfection on any individual and on any government, and can raise life everywhere to the level of Heaven on Earth.

Now should be the time for all those custodians of this knowledge in the country to offer their services to the national government to create an ideal administration.

This will automatically bring the Support of Nature to the whole population and raise the ability of the government to satisfy everyone and create a problem-free nation.

In this way the government will do justice to its sovereign authority and the whole nation will enjoy perpetual peace, happiness, and prosperity—Heaven on Earth.'

—Maharishi

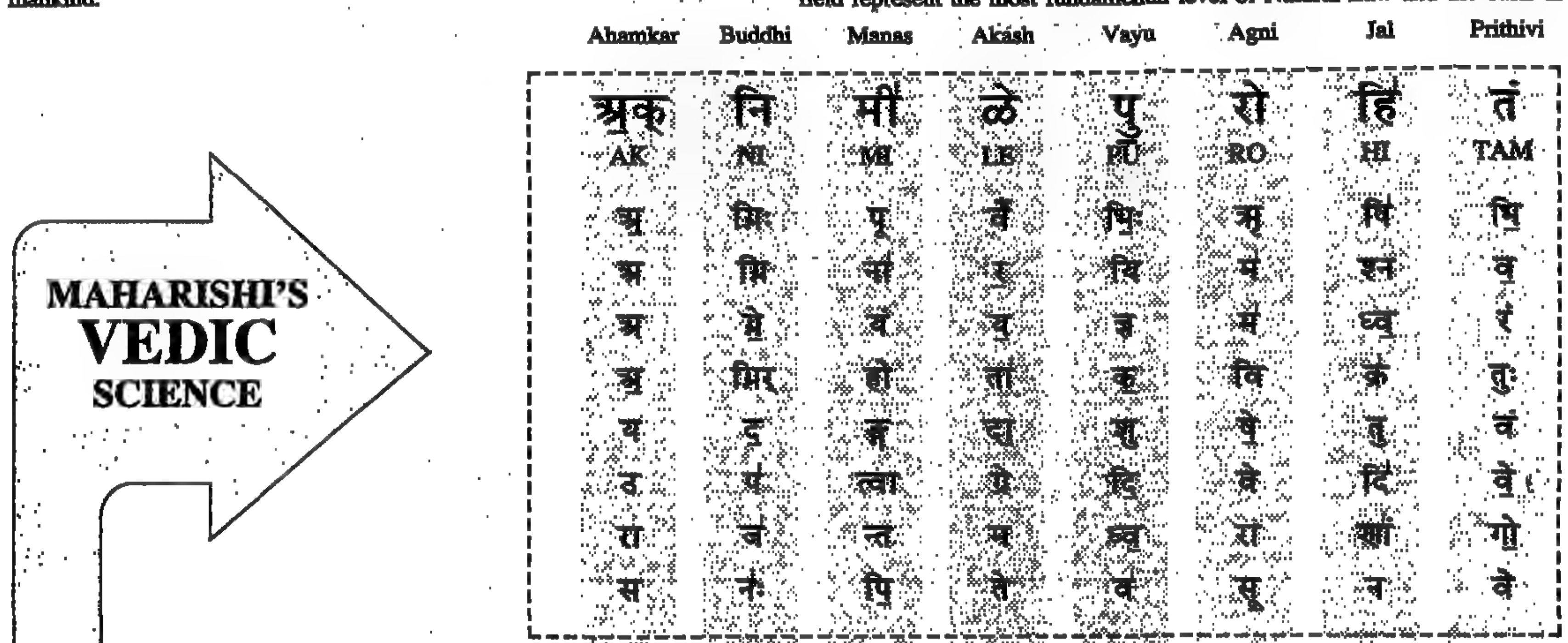
هكذا من الأصل

In recent decades, modern science has systematically revealed deeper layers of order in nature, from the atomic to the nuclear and subnuclear levels of nature's functioning. This progressive exploration has culminated in the recent discovery of the unified field of all the laws of nature—the ultimate source of order in the universe.

Similarly, the ancient Vedic wisdom, understood and reformulated in this scientific age by His Holiness Maharishi Mahesh Yogi in his Vedic Science and Technology, identifies a single, universal source of all orderliness in nature, and a practical, scientifically validated procedure to apply this most fundamental and powerful level of Natural Law for the benefit of mankind.

Both understandings, modern and ancient, locate the unified source of nature's perfect order in a single, self-interacting field of intelligence at the foundation of all the laws of nature. This field sequentially creates, from within itself, all the diverse laws of nature governing life at every level of the manifest universe.

The self-interacting dynamics of this unified field constitutes the most basic level of nature's dynamics, and is governed by its own set of fundamental laws. Just as the constitution of a nation represents the most fundamental level of national law and the basis of all the laws governing the nation, the laws governing the self-interacting dynamics of the unified field represent the most fundamental level of Natural Law and the basis of

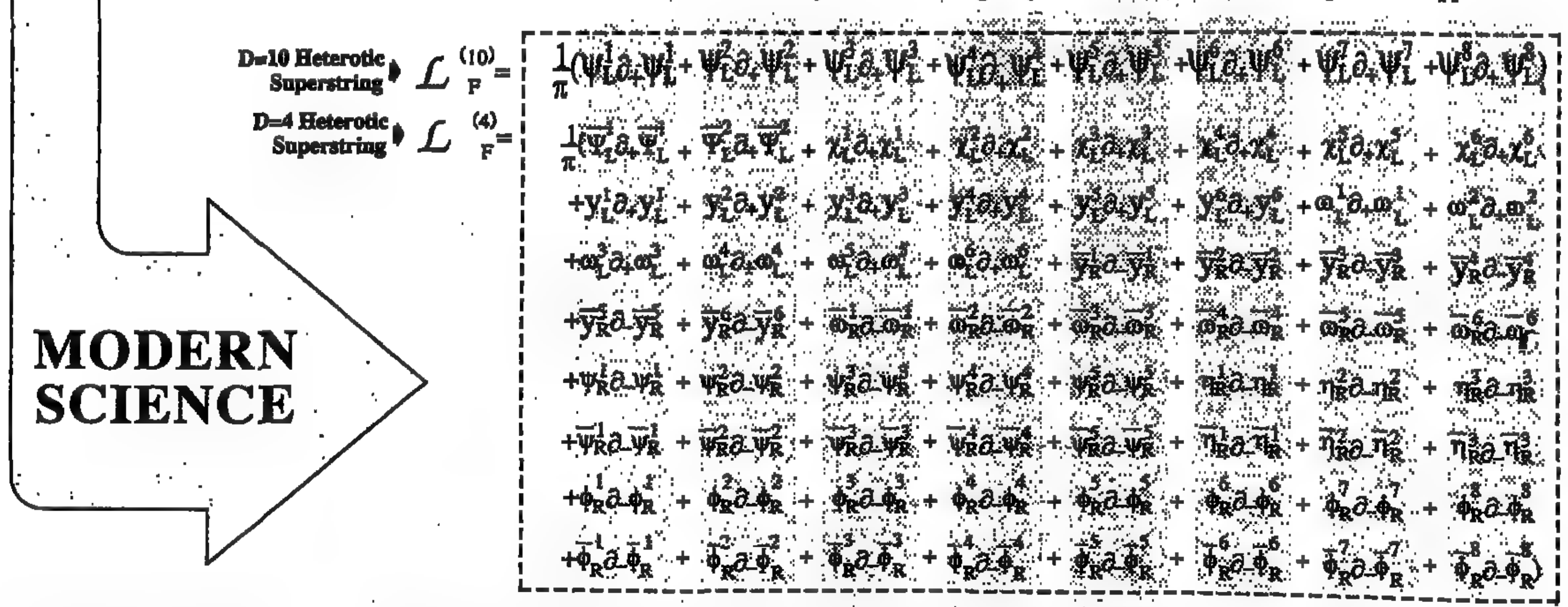


The precise sequence of sounds is highly significant; it is in the sequential progression of sound and silence that the true meaning and content of the Ved reside—not on the level of intellectual meanings ascribed to the Ved in the various translations.

The complete knowledge of the Ved contained in the first *sukt* (stanza) is also found in the first *richa* (verse)—the first twenty-four syllables of the first sukt (stanza 1). This complete knowledge is again contained in the first *pad*, or first eight syllables of the first richa, and is also found in the first syllable of the Ved, 'AK', which contains the total dynamics of consciousness knowing itself.

According to Maharishi's Apaurusheya Bhashya of the Ved, 'AK' describes the collapse of fullness of consciousness (A) within itself to its own point value (K). This collapse, which represents the eternal dynamics of consciousness knowing itself, occurs in eight successive stages. In the next stage of unfoldment of the Ved, these eight stages of collapse are separately elaborated in the eight syllables of the first pād, which emerges from, and provides a further commentary on, the first syllable of Rik Ved, 'AK'. These eight syllables correspond to the eight 'Prakritis' (Ahamkar, etc.) or eight fundamental qualities of intelligence which constitute the divided nature of pure consciousness.

The first line, or 'richa', of the first sukt, comprising 24 syllables, provides a further commentary on the first pad (phrase of eight syllables): the eight-syllable structure of the first pad now appears three



As with the structure of the Ved, the Lagrangian of the superstring can be seen in various stages of unfoldment. The most compact presentation of the string dynamics is provided by the ten-dimensional formulation of the heterotic string ($\mathcal{L}^{(10)}$). In addition to purely bosonic modes associated with the abstract space-time arena in which the string moves, the mathematics reveals precisely eight fundamental fermionic degrees of freedom intrinsic to the string itself—the unique solution allowed by mathematical and quantum-mechanical consistency of the theory. These eight fundamental modes of the string correspond, in Vedic terminology, to the eight Prakritis—the fundamental qualities of the unified field of consciousness. As in the structure of the Ved, these eight fundamental modes admit three interpretations corresponding to Rishi (observer quality), Devata (dynamism quality), and Chhandas (observed quality), consistent with the quantum-mechanical structure of the theory: (1) Each of the fields $\psi^{i=1\ldots8}$ above defines a particular perspective in abstract Hilbert space (Rishi), i.e. their eigenvectors form a basis in Hilbert space which can be used to expand and interpret any other state. (2) Each of the fields $\psi^{i=1\ldots8}$ is an operator (Devata) which creates and destroys specific states in Hilbert space. (3) Each of the symbols $\psi^{i=1\ldots8}$ also denotes a particular vibrational mode or state (Chhandas) in Hilbert space, created or destroyed by its corresponding operator. With these three interpretations afforded by the quantum principle, one obtains the identical 3x8=24-fold structure corresponding to the first richa (verse) of the Rik Ved.

The next stage in the sequential elaboration of the self-interacting dynamics of the unified field is found in the free-fermionic formulation of the string in four dimensions ($\mathcal{L}^{(4)}$). In this more expressed formalism, all bosonic degrees of freedom associated with the original, abstract space-time arena are fermionized, except for two right-moving and two left-moving coordinates needed to account for the four-dimensional structure of classical space-time geometry. This yields precisely 64 fermionic degrees of freedom intrinsic to the string itself [i.e. the 20 left movers ($\bar{\psi}^{1,2}$, χ^i, y^i, ω^i; i=1…6) and 44 right movers ($\bar{y}^i$, $\bar{\omega}^i$, ψ^j, $\bar{\psi}^j$, η^k, $\bar{\eta}^k$, ϕ^m, $\bar{\phi}^m$; i=1…6, j=1…5, k=1…3, m=1…8) shown above]. When these 64 string fields are interpreted with respect to Hilbert space, operators, and states, this gives 3 x 64=192 fundamental expressions of Natural Law at this level

This Constitution of the Universe is Maharishi's
Maharishi Globally Celebrated his Constitution of the

nce and Ancient Vedic Science Reveal

UTION OF THE UNIVERSE

nd Harmony Displayed throughout the Universe

ARI SHI'S VEDIC SCIENCE, VERIFIED BY MODERN SCIENCE

nt of Great Britain to bring their national constitution into alliance with the Constitution
ental administration to be as efficient and as effective as the Government of Nature.

all known laws of nature. The laws governing the self-interacting dynamics of the unified field can therefore be called the ***Constitution of the Universe***—the eternal, non-changing basis of Natural Law and the ultimate source of the order and harmony displayed throughout creation.

In the unified quantum field theories of modern physics, the precise mathematical form of these fundamental laws is found in the Lagrangian of the superstring and the N=1 supergravity theories. In Maharishi's Vedic Science, these same fundamental laws—the Constitution of the Universe—are found in the eternal, self-referral dynamics of consciousness knowing itself. This eternal dynamics is embodied in the very structure of the sounds of the Rik Ved, *the most fundamental* aspect of the Vedic literature.

This chart reveals that the two descriptions of the self-interacting dynamics of the unified field—the Constitution of the Universe—provided by both modern science and Maharishi's Vedic Science are identical, and that these two great traditions of knowledge, objective and subjective—modern and ancient—uphold one another and together rejoice in providing for mankind the basic and timely knowledge of Natural Law which alone is competent to eliminate all problems and to raise the quality of life in society to the level of Heaven on Earth.

First, the chart displays, from the standpoint of Maharishi's Vedic Science, the self-interacting dynamics of the unified field—the Constitution of the Universe—in the structure of the Rik Ved Samhita, as brought to light by Maharishi's Apaurusheya Bhashya of the Ved (Maharishi's Commentary of *Rik Ved*).

According to Maharishi's Apaurusheya Bhashya, the structure of the Ved provides its own commentary—a commentary which is contained in the sequential unfoldment of the Ved itself in its various stages of expression. The knowledge of the total Ved—the complete dynamics of the unified field of consciousness and the mechanics of symmetry breaking through which the unified field sequentially creates the manifest universe—is contained in the first sukt of the Rik Ved, which is presented below:

Ahamkar	Buddhi	Manas	Akash	Vayu	Agni	Jal	Prithivi
यु	ज्ञ	स्य	दे	व	मृ	त्वि	जम्
YA	GYA	SYA	DE	VA	MRI	TVI	JAM
री	[illegible]	[illegible]	[illegible]	[illegible]	नै	इ	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	वे	दि	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	भू	र	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	व	स्व	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	रि	ध्य	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	या	व	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	दि	वि	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	नो	[illegible]	व

Ahamkar	Buddhi	Manas	Akash	Vayu	Agni	Jal	Prithivi
हो	तां	रं	र	त्न	धा	तं	मम्
HO	TA	RAM	RA	TNA	DHA	TA	MAM
[illegible]	[illegible]	वाँ	ए	३	वं	त्त	ति
[illegible]	[illegible]	सं	वी	र	वं	त्त	मम्
[illegible]	इ	हे	वे	सु	ग	च्छ	ति
[illegible]	वो	दे	वे	भि	रा	गं	मत्
त	वेत्	तत्	सु	त्य	मं	ङ्गि	रः
न	मो	भ	रं	त	ए	मं	सि
व	र्ध	मा	नं	सु	वे	द	मे
स	चे	सु	आ	नः	स्व	स्त	ये

times. The first pad expresses the eight Prakritis (fundamental qualities of intelligence) with respect to the knower or 'Rishi' quality of pure consciousness. The second pad expresses the eight Prakritis with respect to the process of knowing or 'Devata' (dynamism) quality of pure consciousness. The third pad expresses the eight Prakritis with respect to the known or 'Chhandas' quality of pure consciousness. Together, these three padas comprise the first richa (verse) of the Ved, which represents another complete stage in the sequential unfoldment of knowledge—i.e. one complete version of the Constitution of the Universe.

The subsequent eight lines complete the remainder of the first sukt—the next stage of sequential unfoldment of knowledge in the Ved. These eight lines consist of 24 padas (phrases), comprising 8x24=192 syllables. According to Maharishi's Apaurusheya Bhashya (Maharishi's Commentary of Rik Ved), these 24 padas of eight syllables elaborate the unmanifest, eight-fold structure of the 24 gaps between the syllables of the first richa (verse). Each line consists of three padas which, as in the first richa, respectively present the structure of self-interaction with respect to the Rishi (observer quality), Devata (dynamism quality—process of observation), and Chhandas (observed quality) qualities of pure consciousness. Ultimately, in subsequent stages of unfoldment, these 192 syllables of the first sukt (stanza) get elaborated in the 192 suktas that comprise the first mandal (circular cyclical eternal structure) of the Rik Ved, which in turn gives rise to the rest of the Ved and the entire Vedic literature.

This perfectly orderly, eternal structure of knowledge—the Ved—has been preserved over thousands of years in the Vedic tradition of India. The complete knowledge of the Ved and its profound significance for life has been revived and understood in a scientific framework by Maharishi Mahesh Yogi in his Vedic Science and Technology.

It is a highly significant feature of our scientific age that this complete knowledge of Natural Law provided by Maharishi's Vedic Science is now open to scientific confirmation through the unified quantum field theories of modern physics. Indeed, we see below that precisely this same mathematical structure of sequential unfoldment of the self-interacting dynamics of Natural Law is now available in the mathematical structure of the unified field found in the Lagrangian of the superstring, which represents the most complete mathematical expression of the detailed structure and dynamics of the unified field:

$$\mathcal{L}^{(10)}_F = \frac{1}{\pi}(\psi^1_L\partial_+\psi^1_L + \psi^2_L\partial_+\psi^2_L + \psi^3_L\partial_+\psi^3_L + \psi^4_L\partial_+\psi^4_L + \psi^5_L\partial_+\psi^5_L + \psi^6_L\partial_+\psi^6_L + \psi^7_L\partial_+\psi^7_L + \psi^8_L\partial_+\psi^8_L)$$

$$\begin{aligned}\mathcal{L}^{(4)}_F = \frac{1}{\pi}(&\bar\psi^1_L\partial_+\bar\psi^1_L + \bar\psi^2_L\partial_+\bar\psi^2_L + \chi^1_L\partial_+\chi^1_L + \chi^2_L\partial_+\chi^2_L + \chi^3_L\partial_+\chi^3_L + \chi^4_L\partial_+\chi^4_L + \chi^5_L\partial_+\chi^5_L + \chi^6_L\partial_+\chi^6_L\\ &+ y^1_L\partial_+y^1_L + y^2_L\partial_+y^2_L + y^3_L\partial_+y^3_L + y^4_L\partial_+y^4_L + y^5_L\partial_+y^5_L + y^6_L\partial_+y^6_L + \omega^1_L\partial_+\omega^1_L + \omega^2_L\partial_+\omega^2_L\\ &+ \omega^3_L\partial_+\omega^3_L + \omega^4_L\partial_+\omega^4_L + \omega^5_L\partial_+\omega^5_L + \omega^6_L\partial_+\omega^6_L + \bar y^1_R\partial_-\bar y^1_R + \bar y^2_R\partial_-\bar y^2_R + \bar y^3_R\partial_-\bar y^3_R + \bar y^4_R\partial_-\bar y^4_R\\ &+ \bar y^5_R\partial_-\bar y^5_R + \bar y^6_R\partial_-\bar y^6_R + \bar\omega^1_R\partial_-\bar\omega^1_R + \bar\omega^2_R\partial_-\bar\omega^2_R + \bar\omega^3_R\partial_-\bar\omega^3_R + \bar\omega^4_R\partial_-\bar\omega^4_R + \bar\omega^5_R\partial_-\bar\omega^5_R + \bar\omega^6_R\partial_-\bar\omega^6_R\\ &+ \psi^1_R\partial_-\psi^1_R + \psi^2_R\partial_-\psi^2_R + \psi^3_R\partial_-\psi^3_R + \psi^4_R\partial_-\psi^4_R + \psi^5_R\partial_-\psi^5_R + \eta^1_R\partial_-\eta^1_R + \eta^2_R\partial_-\eta^2_R + \eta^3_R\partial_-\eta^3_R\\ &+ \bar\psi^1_R\partial_-\bar\psi^1_R + \bar\psi^2_R\partial_-\bar\psi^2_R + \bar\psi^3_R\partial_-\bar\psi^3_R + \bar\psi^4_R\partial_-\bar\psi^4_R + \bar\psi^5_R\partial_-\bar\psi^5_R + \bar\eta^1_R\partial_-\bar\eta^1_R + \bar\eta^2_R\partial_-\bar\eta^2_R + \bar\eta^3_R\partial_-\bar\eta^3_R\\ &+ \phi^1_R\partial_-\phi^1_R + \phi^2_R\partial_-\phi^2_R + \phi^3_R\partial_-\phi^3_R + \phi^4_R\partial_-\phi^4_R + \phi^5_R\partial_-\phi^5_R + \phi^6_R\partial_-\phi^6_R + \phi^7_R\partial_-\phi^7_R + \phi^8_R\partial_-\phi^8_R\\ &+ \bar\phi^1_R\partial_-\bar\phi^1_R + \bar\phi^2_R\partial_-\bar\phi^2_R + \bar\phi^3_R\partial_-\bar\phi^3_R + \bar\phi^4_R\partial_-\bar\phi^4_R + \bar\phi^5_R\partial_-\bar\phi^5_R + \bar\phi^6_R\partial_-\bar\phi^6_R + \bar\phi^7_R\partial_-\bar\phi^7_R + \bar\phi^8_R\partial_-\bar\phi^8_R)\end{aligned}$$

$$\mathcal{L}^{(10)}_F = \frac{1}{\pi}(\psi^1_L\partial_+\psi^1_L + \psi^2_L\partial_+\psi^2_L + \psi^3_L\partial_+\psi^3_L + \psi^4_L\partial_+\psi^4_L + \psi^5_L\partial_+\psi^5_L + \psi^6_L\partial_+\psi^6_L + \psi^7_L\partial_+\psi^7_L + \psi^8_L\partial_+\psi^8_L)$$

$$\begin{aligned}\mathcal{L}^{(4)}_F = \frac{1}{\pi}(&\bar\psi^1_L\partial_+\bar\psi^1_L + \bar\psi^2_L\partial_+\bar\psi^2_L + \chi^1_L\partial_+\chi^1_L + \chi^2_L\partial_+\chi^2_L + \chi^3_L\partial_+\chi^3_L + \chi^4_L\partial_+\chi^4_L + \chi^5_L\partial_+\chi^5_L + \chi^6_L\partial_+\chi^6_L\\ &+ y^1_L\partial_+y^1_L + y^2_L\partial_+y^2_L + y^3_L\partial_+y^3_L + y^4_L\partial_+y^4_L + y^5_L\partial_+y^5_L + y^6_L\partial_+y^6_L + \omega^1_L\partial_+\omega^1_L + \omega^2_L\partial_+\omega^2_L\\ &+ \omega^3_L\partial_+\omega^3_L + \omega^4_L\partial_+\omega^4_L + \omega^5_L\partial_+\omega^5_L + \omega^6_L\partial_+\omega^6_L + \bar y^1_R\partial_-\bar y^1_R + \bar y^2_R\partial_-\bar y^2_R + \bar y^3_R\partial_-\bar y^3_R + \bar y^4_R\partial_-\bar y^4_R\\ &+ \bar y^5_R\partial_-\bar y^5_R + \bar y^6_R\partial_-\bar y^6_R + \bar\omega^1_R\partial_-\bar\omega^1_R + \bar\omega^2_R\partial_-\bar\omega^2_R + \bar\omega^3_R\partial_-\bar\omega^3_R + \bar\omega^4_R\partial_-\bar\omega^4_R + \bar\omega^5_R\partial_-\bar\omega^5_R + \bar\omega^6_R\partial_-\bar\omega^6_R\\ &+ \psi^1_R\partial_-\psi^1_R + \psi^2_R\partial_-\psi^2_R + \psi^3_R\partial_-\psi^3_R + \psi^4_R\partial_-\psi^4_R + \psi^5_R\partial_-\psi^5_R + \eta^1_R\partial_-\eta^1_R + \eta^2_R\partial_-\eta^2_R + \eta^3_R\partial_-\eta^3_R\\ &+ \bar\psi^1_R\partial_-\bar\psi^1_R + \bar\psi^2_R\partial_-\bar\psi^2_R + \bar\psi^3_R\partial_-\bar\psi^3_R + \bar\psi^4_R\partial_-\bar\psi^4_R + \bar\psi^5_R\partial_-\bar\psi^5_R + \bar\eta^1_R\partial_-\bar\eta^1_R + \bar\eta^2_R\partial_-\bar\eta^2_R + \bar\eta^3_R\partial_-\bar\eta^3_R\\ &+ \phi^1_R\partial_-\phi^1_R + \phi^2_R\partial_-\phi^2_R + \phi^3_R\partial_-\phi^3_R + \phi^4_R\partial_-\phi^4_R + \phi^5_R\partial_-\phi^5_R + \phi^6_R\partial_-\phi^6_R + \phi^7_R\partial_-\phi^7_R + \phi^8_R\partial_-\phi^8_R\\ &+ \bar\phi^1_R\partial_-\bar\phi^1_R + \bar\phi^2_R\partial_-\bar\phi^2_R + \bar\phi^3_R\partial_-\bar\phi^3_R + \bar\phi^4_R\partial_-\bar\phi^4_R + \bar\phi^5_R\partial_-\bar\phi^5_R + \bar\phi^6_R\partial_-\bar\phi^6_R + \bar\phi^7_R\partial_-\bar\phi^7_R + \bar\phi^8_R\partial_-\bar\phi^8_R)\end{aligned}$$

of description of the Constitution of the Universe—in precise correspondence with the first sukt of the Rik Ved.*

This precise mathematical correspondence between the descriptions of the detailed structure of Natural Law provided by modern science and by Maharishi's Vedic Science—both on the verbal level of nature's language and on the mathematical level of symbols—gives great confidence that the knowledge of the most fundamental level of Natural Law, the Constitution of the Universe, is now fully available to mankind.

Fortunately, Maharishi's Vedic Science and Technology provides not only detailed intellectual understanding of the Constitution of the Universe (above), but a highly practical, scientifically validated technology to apply this most fundamental and powerful level of Natural Law for the benefit of mankind. Over 500 scientific studies conducted at more than 200 universities and research institutes in 25 countries throughout the world have verified the immense practical benefits of this simple technology—Maharishi's Transcendental Meditation and TM-Sidhi programme—to access the Constitution of the Universe and thereby develop full human potential in all areas of mind, body, and behaviour. When the Constitution of the Universe, the total potential of Natural Law on the self-referral level of individual intelligence, is fully enlivened by the attention of the conscious mind through Maharishi's Transcendental Meditation and TM-Sidhi programme—the applied technologies of Maharishi's Vedic Science—individual thought and action become spontaneously in accord with Natural Law. Once life is lived in accord with all the laws of nature governing physiological, psychological, and sociological processes, problems of ill-health and inappropriate behaviour do not arise. The individual receives the support of all the laws of nature for the fulfilment of all his desires and aspirations.

The single most profound application of Maharishi's Vedic Science and Technology is through collective practice of the TM-Sidhi programme. Group practice of the TM-Sidhi programme by as few as 7,000 citizens has been scientifically shown to create coherence in collective consciousness, to eliminate collective stress, and to raise life to be spontaneously in accord with Natural Law.

Extensive scientific research has shown that group practice of Maharishi's Transcendental Meditation and TM-Sidhi programme increases positive trends throughout society and decreases negative trends such as ill-health, crime, and other anti-social behaviour.

With this scientifically proven programme the entire population of a nation now has the chance to enjoy the full support of all the laws of nature for the fulfilment of all its goals and aspirations.

By incorporating into the national constitution a clause which guarantees the establishment and maintenance of such a coherence-creating group, national law will gain the support of Natural Law, and the man-made constitution of the nation will enjoy full alliance with the eternal Constitution of the Universe.

To learn more about the Constitution of the Universe in both its theoretical and applied values please contact Dr Geoffrey Clements, Vice Chancellor, Maharishi University of Natural Law, Mentmore Towers, Leigton Buzzard, Mentmore, Bedfordshire, LU7 0QH, England.

* This same mathematical sequence of unfoldment has also been found at the N=1 supergravity and unified electroweak levels of nature's dynamics.

rishi's Gift to the World from 1991, Maharishi's Year of Support of Nature's Government
n of the Universe on 12 January 1992, Maharishi's Year of the Constitution of the Universe

CONSTRUCTION CONTRACTS

Providing services for M25

MOSS CONSTRUCTION SOUTHERN has been awarded a £13.2m contract to design and construct the first motorway service areas on the southern section of the M25 motorway for RoadChef.

The site is located at Clackett's Lane, on the Kent–Surrey border, between junctions five and six near Westerham. It spans both sides of the motorway and will be the largest service project on the motorway network. The project will create over 350 full-time jobs.

The design, management and co-ordination of the contract will be handled by Moss Construction operating from Cheltenham, while the on-site construction programme, scheduled for completion in 15 months, will be undertaken by Wallis, based at Bromley.

Both Moss and Wallis are part of the regional construction network of the CHB Group.

RoadChef's contract to develop and operate the Clackett Lane services was awarded last year.

Paris gardens to be restored

The Tuileries Gardens in Paris, neglected for so long they have become little more than a dust-bowl flanked by sick trees, are undergoing a FFr250m (£25.67m) facelift to restore their former glory.

Three landscape architects – Jacques Wirtz, Pascal Cribier and Louis Benech – are working with Mr I M Pei, who is in charge of renovating the neighbouring Louvre museum.

The project is due to be completion in 1995.

At the launch of the project, Jack Lang, the French culture minister, said: "We shall be leaving the main avenues, ponds and terraces as they were originally intended, while adding new touches to liven up the back of the gardens [near the Louvre]."

The gardens date back to the 15th century but took on their present form under Louis XIV's landscape designer Le Notre in 1664.

The Royal Palace of the Tuileries, where Louis XVI and Marie Antoinette lived during the French Revolution in 1789, was burned down during the Paris Commune in 1871.

Bridging the Nile

RENDEL PALMER & TRITTON has won an inspection and assessment contract for a railway bridge over the River Nile in Uganda, which it designed more than 60 years ago and which is still a strategic rail link to the coast.

RPT, a subsidiary the High-Point group, will also make recommendations to the Uganda Railways Corporation for any remedial or upgrading measures required to extend the life of the bridge and to accommodate heavier trains.

The Jinja Bridge, across the Nile on the north shore of Lake Victoria, where the river drains out of the lake over the Ripon Falls, was built as a two-tier bridge in 1930. It originally carried a single-line 3ft 6in gauge railway on the top deck and a 20ft roadway beneath.

RPT were the consultants for the substantial modification of the bridge carried out in the 1950s when the Owen Falls dam was built nearby. This raised the river level at the bridge by about 26ft. The roadway was diverted across the dam.

Water supplies

EC HARRIS has been appointed by the Sydney Water Board, Australia, to review tender documentation and estimates on four water-purification contracts with a total value of Aus$600m (£257m).

They will be built and operated under a "build own operate transfer" style contract with a transfer option at the end of the term.

Three of the projects, Avon, MacArthur and Woronara, which are based inland from Sydney, will each supply 200 megalitres of drinking water a day to the city's suburbs.

The largest project, Prospect, will have a joint module capacity of 800 megalitres a day to meet Sydney's water demand in 1997. Further modules will upgrade total plant capacity to 3000 megalitres a day to meet the expected demand in the year 2000.

Retail projects

BOVIS SA, the French subsidiary of Bovis Construction, has been awarded two contracts by Marks and Spencer in France and Belgium. In Nice, Bovis will convert 30,000 sq ft into a new store, while an existing store in Brussels is to be extended and refurbished.

Sulzer contracts total £13m

SULZER INFRA (UK) has won contracts for building services totalling over £13m.

They include an order from Cementation, a Trafalgar House Company, for multi-services on a large development at Feltham in Middlesex, in which Sulzer Infra forms part of a consortium; a mechanical services installation on a fork-lift truck production line for Lansing Linde at Basingstoke; and the installation of mechanical services at the University of Sheffield.

Other projects are at Bristol General Hospital; Willesden College of Technology; Tesco Stores, Dudley; and the Bank of China in London.

Courthouse

HIGGS AND HILL NORTHERN has been awarded two contracts worth £8.2m. Rotherham Borough Council has awarded a £5.25m contract for the construction of a magistrates courthouse in Rotherham and a £3m library and basement project has been placed by Leeds University.

Housing work

WILLMOTT DIXON HOUSING SOUTHERN has been awarded contracts, worth almost £8m, by housing associations in the south of England.

A £2m development of 60 homes to meet a variety of housing needs in Kent is being built at Churchlands Avenue, New Romney, for Samuel Lewis Housing Trust.

Two contracts are in West Sussex. At Mayfield Farm, in Bodiam Drive, Hastings, the company will build 60 houses, 36 for Orbit Housing Association and 24 for Kelsey Housing Association. Coastal Counties Housing Association has awarded a £1.8m contract for a residential care unit for the frail and elderly.

Scottish highway scheme

CHRISTIANI-MORRISON JOINT VENTURE has been awarded the Nether Abington to Elvanfoot section of the M74 in Strathclyde. The project, valued at £19.4m, will begin in April.

The contract, for the Scottish Office industry department, comprises 7.7 kilometres of motorway with 2.5 kilometres of slip and side roads, an underbridge with composite prestressed beam deck over the main London to Glasgow railway line, one overbridge with precast beam deck and a precast concrete arch bridge over a river as well as seven underpasses.

The construction involves the excavation of 1.65m cu metres of earthworks and the placing of approximately 750,000 cu metres of suitable fill material together with associated drainage, fencing and ancillary works.

£69m work for Trafalgar House

TRAFALGAR HOUSE CONSTRUCTION (REGIONS) has been awarded over £69m of new business since early February.

The Guildford and Bristol offices have picked up £27m. Guildford's largest project is from Tower Hamlets Borough Council in east London to build two teaching blocks for Whitechapel School. Bristol is undertaking a £3.8m Dolby laboratories project.

The Cambridge office successfully tendered for a £10.3m batch of orders, including a £7.7m college complex for the county council.

In the Midlands, the Ashby area office has received work worth almost £11m, including a £3m car park at Birmingham's Hall 10 for the National Exhibition Centre; the Tonbridge region has notched up over £6m; Middlesborough, Darlington, the north-west and Exeter have contributed contracts worth around £11.5m, and the Cardiff and Birmingham areas have recorded gains of £4m on their order books.

£20m orders won by Lovell Group

The construction division of the LOVELL GROUP, comprising Lovell Construction, Bullock Construction and Walter Lilly, has won contracts worth £20.5m.

In London, the largest, worth £3.8m, is for refurbishment and the provision of a dealing room for Bank Paribas in Wigmore Street. At Deptford, a £2.6m project is for 48 flats and 10 commercial units for South London Family Housing Association, while for Homebase at Richmond, a £2.46m scheme will provide a retail centre.

Two contracts, each worth £2m, are for refurbishment and extension of a research centre at Harefield for Pitman-Moore and refurbishment at two residential blocks at Sunningdale's Civil Service College.

In the Midlands, housing improvements for the City of Birmingham and Dudley Metropolitan Borough Council account for £3m and £1.42m respectively.

Bracknell school refurbished

Two companies within the JOHN LAING CONSTRUCTION GROUP have won contracts worth £12m. Laing Wessex has won £9m worth of orders for work at a Bracknell School and a hospital in Reading. The largest is the £6.9m contract awarded by the Royal County of Berkshire to improve facilities at Easthampstead Park Comprehensive School.

Five classroom blocks will be constructed and four buildings refurbished. The contract also provides for a pavilion, expressive arts block, gymnasium and new outdoor synthetic sports pitches and tennis courts.

Laing North West has won £3m worth of orders for refurbishment work at Manchester's Christie Hospital and an extension to Chester District General Hospital.

ARCHITECTURE

Modest monumentalism

Colin Amery applauds the decision to restore Sir Edwin Cooper's building at No. 1, Princes Street

Sir Edwin Cooper (1873-1942) was a great Georgian architect. Georgian, that is, in the style of King George V. His public buildings are archetypical of Edwardian splendour and optimism which continued into the reign of King George V, almost undimmed by the First World War. He laid some heavy loads upon the earth. In his early career he won, with his partners, several competitions – The Guildhall and Law Courts in Hull; the Royal Grammar School in Newcastle upon Tyne; the Rochester Technical Institute; and the Middlesborough Public Library. He reached the final stage of the important national competition for the new London County Hall.

Although he started his life in Scarborough, Edwin Cooper is today best remembered for his major public buildings in the capital. He was very much a product of those competitive days, which produced such an opulent harvest of municipal and government buildings. In the decade 1895-1905 an average of about 70 competitions were advertised in the building press each year. In the years 1900 – 1905 some 50 competitions were held for new public libraries. It seems almost unbelievable in these recessionary times, but it is worth remembering that this was the period that produced many of the public buildings now still very much in use.

In 1911 (two years before Buckingham Palace was given its Edwardian Beaux Arts refronting by Sir Aston Webb), Cooper hit London with his first solo competition win – the new Town Hall for St. Marylebone on the Marylebone Road. Only Cooper would have thought of the Mausoleum of Hallicarnassus as adapted by Christopher Wren for the denizens of St. Marylebone. The great tower remains a landmark today with its almost cyclopian detail and emphasis on form as much as detail.

Another part of London dominated by Cooper is in the City, Tower Hill in Trinity Square, where he built the Port of London Authority (PLA) from 1912-1922. This is a handsome, megalomaniac, vulgar and yet very splendid creation. You can never forget its massive tower angled above the Corinthian portico, the giant columns of which range with the side walls. He also clearly loved giant statues. Sadly the great circular domed hall of the PLA building was lost in the last war.

I think Cooper's best building is the Star and Garter Home on the top of Richmond Hill in Surrey. He got the point of the site and somehow achieved the sort of domestic grandeur in brick and stone that suits the lives of the retired soldiers.

In the City, Cooper's buildings have suffered. His home for Lloyds with its fine Oval Room and The Room for the underwriters has been demolished and replaced by Richard Rogers's high-tech building. The interior of the PLA might as well have been demolished because its adaptation was so unsympathetic. So it comes as a relief to see the recent announcement by the National Westminster Bank about their Sir Edwin Cooper building at No. 1 Princes Street, at the heart of the Bank of England conservation area. The Chairman of the National Westminster bank is that civilised lawyer, Lord Alexander, and he says of the bank's decision to carry out a complete restoration and careful modernisation of the building that "it demonstrates a commitment to high quality architecture."

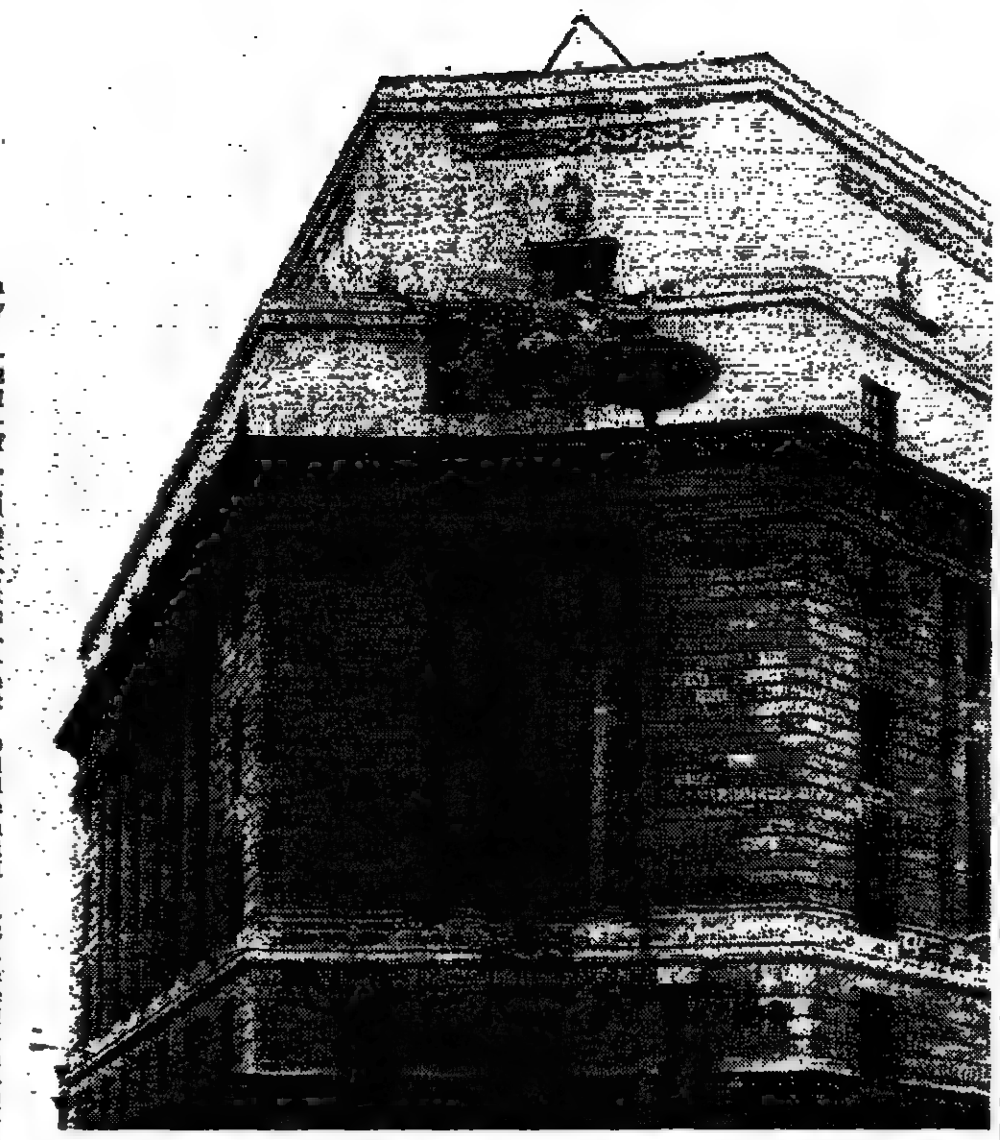
Cooper's building was constructed between 1929 and 1932 for the National Provincial Bank. It occupies a very important site at the convergence of the ancient streets of Poultry, Cornhill, Lombard Street, Threadneedle Street and Princes Street. Its immediate neighbour is the Midland Bank on Poultry designed by Sir Edwin Lutyens in 1924. In fact Cooper's corner building is practically embraced by Lutyens's Midland Bank. But Cooper got the better site where he designed an edifice of not inconsiderable presence.

The building is listed Grade II (as are the buildings owned and possibly to be demolished by Lord Palumbo across the street) and the listing citation shorthand perhaps described Cooper's work better than I can:

"1929 by Sir Edwin Cooper. Classical, stone, 5 storeys and 2 attics the upper one recessed. High channelled base with Doric frieze and cornice; large round headed vermiculated openings with big scrolled keystones, rectangular niches with statues. Mezzanine above cornice. Three storey channelled antae over, recessed five bay centres between with giant detached Corinthian columns, bracketed cornice over. Plain attic storey with simple parapet. High recessed upper attic with band of swag decoration and simple coping. Corner of Princes Street and Mansion House Street statuary group of five figures".

This does not quite convey the gravitas of this building nor the clever way that Cooper handled the awkward corner site. There are some who would say that the plainess of this elevation shows the collapse of real enthusiasm for the classical style. But I would say that Cooper understood that this sort of late 1920s classicism, clearly built on a steel frame, should be more cubic and simple. He kept much of the splendour for the interior, where Nat West and its architects the T P Bennett Partnership intend to restore the fine banking hall with its glass domed roof. Part of the extensive work will consist of removing the insensitive additions made in the 1970s and the replacement of much of Cooper's original design. Walls of Subiaco marble and the two great bronze sculptures representing Prosperity and Integrity will be restored. Cooper's panelled rooms on the upper floors are to be carefully moved to form a suite on the first floor.

Sir Edwin Cooper's architecture is well worth the effort of sensitive restoration. It plays an important part in the townscape of the City and is a good neighbour to the Bank of England, the Mansion House and the Royal Exchange. The decision to restore and rehabilitate is a wise one that respects the fabric of the City where modest monumentalism is completely appropriate.



The National Westminster Bank, Princes Street (the picture shows the front upper elevations), at the heart of the Bank of England conservation area

Orfeo

COLISEUM

The *Orfeo* that David Freeman directed for English National Opera in 1981 was his first substantial achievement in this country. The London branch of his Opera Factory was yet to get underway, and the ideas and approach to music theatre which Freeman put into into practice in his staging of Monteverdi's *favola per musica* must have seemed far less familiar then than they do now. Yet it emerges once again as a fascinating, penetrating piece of drama, a wonderfully imaginative and moving solution to the problems of presenting the first of all operatic masterpieces.

In a programme note he describes *Orfeo* as "not the work of professional opera writers: rather the response of two friends [Monteverdi and Alessandro Striggio] to the various attempts at recreating Greek drama which had taken place in the preceding ten years". It is this mysterious mixture of theatre, religious ceremony and musical lyricism that is captured so well here. In the opening and closing acts the threads of a communal celebration are woven together with the bundle of myths out of which the story of Orfeo's tragedy gradually takes shape; in the third and fourth acts, on the banks of the river Styx and the Underworld itself, the action focuses down from the community to the individual, and in the nightmare world of Orfeo's imagination the drama passes over from ritual to fully-fledged opera. It's almost as if it is necessary for Orfeo's great aria "Possente spirto" in Act 3 to open up that new world of musical feeling.

With sets confined to some scattered boulders and patterned hangings, the sense of place is deliberately under-emphasised. The singers themselves create the atmosphere, provide all the context for the unfolding of the story. Freeman is served splendidly by his cast, which has Antony Rolfe-Johnson's Orfeo as its focus, singing with unfailing elegance and intensity, and managing even the most elaborate decoration of his arias with an ease that never neglects the expressive weight of every phrase.

Elsewhere there are few weaknesses and many stylish strengths. The intelligence and lucidity of all the singing (in Anne Ridler's English translation) are characterised right at the start in the prologue by Jennifer Smith's rapt delivery of Music's invocation, and later encompasses especially Margaret Preece's Nymph, Sally Burgess's Messenger (wonderfully moving in her aria to Orfeo), Thérèse Feighan's Hope, and Marie Angel's distinctive, seductive Euridice. Christopher Robson leads the Shepherds with verve and rounds out every one of his phrases with eloquence.

The performance is directed by Harry Bicket. At times the instrumental playing seemed less characterful than it could be, though the Coliseum is an enormous space in which to make 17th-century instruments tell expressively. And there is never anything which detracts from this profoundly revealing staging, one which gets closer to the essence of *Orfeo* than any more gilded, elaborate presentation seems ever likely to approach.

Andrew Clements

Vocem

PURCELL ROOM

Vocem is a keen music-theatre ensemble, much concerned with electronics, educational work and "community" projects. On Saturday they appeared on the South Bank with electronics for Vic Hoyland's new *In Pursuit of a Dream*, and with the Endymion Ensemble and a few props for Judith Weir's version of *Scipio's Dream* – billed as a little known "opera" by "the 14-year-old Mozart". In fact *Il sogno di Scipione* was a "serenata drammatica" commissioned for the inauguration of the new Archbishop of Salzburg in 1772, when Mozart was already 16, but never mind; it made an engaging start for the evening.

It would have made a still better ending, as originally announced, for it is half the length of the Hoyland piece and palpably richer in music. He and his bright cast proved that this pretty *jeu d'esprit* can work with no visual tricks more modern than a dance hall mirror-ball.

Miss Weir's alterations to *Scipione* are limited and precise. The original scenario was the lofty sort of "morality" that was standard for celebrating accessions to high places, royal or ecclesiastical: noble Scipio is divinely wooed both by Fortuna and by Constanza, and with guidance from a noble ancestor chooses the right one (the latter, of course). In Weir's wry, pawky English text he becomes an impressionable City chap of the 1990s, but *mutatis mutandis* the dream-vision remains the same. The Weir orchestra is updated to match, not only by electric guitar and keyboards to back her string trio and four winds, but with a huge, dominating part for mock-celestial harp.

In that role Hugh Webb was indomitable – it must be more taxing than Mozart's own Concerto for harp and flute – and his sure-fingered rhythm invaluable. Gwion Thomas sang "Mr Scipio" in ringing style, and with cool comic flair: he is a performer of noteworthy potential. The pleading soprano goddesses were Frances Lynch and Josephine McNally, both of them alert and characterful, and Andrew Gallacher's bass "Grandfather" wielded more *gravitas* than his casual pitch really earned.

He was more exactly sonorous as Oberon in Hoyland's piece, which is a thin-blooded extract from *A Midsummer Night's Dream* (no Athenian court, no mechanicals) with cosy intermittent warbling by the surviving characters. Even if the music hadn't expressly cited "I know a bank . . ." from Britten's *Dream*, it would recall Britten's sound-world for most music-lovers: white-note harmony with a few modal twists, soft whole-tone clashes between voices.

Unlike Britten, Hoyland offers little more than that – and his score is further diluted by long spoken stretches: half unintelligible if you don't know the play well, irritatingly truncated and denuded of context if you do. Besides most of the singers already mentioned, Philip Creasy, Phillip Casperd and Teresa Shaw sang and declaimed to excellent purpose. The net effect of *In Pursuit of a Dream* was nonetheless dramatically slim, and musically too bland and inoffensive to stamp a character of its own upon the shrunken Shakespeare text.

David Murray

Anna Karenina

TRICYCLE THEATRE

Tolstoy dabbled in writing drama but he is not best remembered for plays. Even partial adaptations of his novels have been more successful than his plays. At the Tricycle, it is not "the vasty fields of France" but the cool plains of Russia which Helen Edmundson (adaption) and Nancy Meckler (direction) cram into a black box in their compelling version of *Anna Karenina* for the Shared Experience company.

At over three hours, the play still romps through the Russian countryside and blazes through Tolstoy's plot. Anna leaves a barren marriage to live with her lover, but society shuns them and her world disintegrates. Her story then interweaves with that of Levin and Kitty, building an ideal rural life outside the Moscow-Petersburg axis. Others have done Tolstoy faster – David O. Selznick's 1935 version was a shameless 95 minutes, mostly devoted to Greta Garbo – but the essentials are here.

The Tricycle trick is to make Anna (Annabelle Apsion) and Levin (Richard Hope) into player-narrators of their own interlinked stories. They are always on stage, commenting or describing: Anna says "You are Konstantin Levin, why are you here? This is my story" and Levin replies "It seems it's mine too". The staging places city against country, Anna's despair against Levin's hope: in one scene, Anna breaks with her husband (Gregory Floy) and Levin proposes to Kitty (Pooky Quesnel), while the rest of the cast party in the background – this is like good opera, where several things happen simultaneously.

Alastair Muir

Annabelle Apsion as Anna and Max Gold in Anna Karenina

The eight actors generate intense energy in a minimal set; and the simple creative lighting (Ace McCarron) makes one wish more directors and designers could be this bold. The only design motifs are pairs of railway lines, like a metaphysical conceit from *Marvell*: infinite but never meeting and travelling but never arriving. It seems apt that Tolstoy died in a railway waiting room.

Andrew St George

Ernani

NEW THEATRE, CARDIFF

The point is not lost when one happens to catch *Ernani* on the day that a general election is called. Like some other Verdi operas, this one involves itself with a period when absolute rulers were in power and the populace waited upon the whim of one individual to see whether that power would be dispensed for good or ill.

In the case of *Ernani* the outcome hangs in the balance and it is only towards the end that Don Carlo, having secured his position in what one imagines to have been a fairly ruthless fashion, turns to magnanimity and forgives his enemies. No doubt some parallel with contemporary politics could be found. The strength of Elijah Moshinsky's production is that it generally leaves making perceptions of that nature to the audience's imagination.

It was as long ago as 1979 that this *Ernani* was originally put on by Welsh National Opera. At the time the company was riding high on a tide of adventurous programming, of which this early Verdi opera played a part, and it seems appropriate that it should be coming back into the repertoire now alongside the highly-acclaimed new *Pelléas et Mélisande*.

It was a handsome production to look at then, and still is now. The dark vision of a 16th-century Spain, dominated by grim men of the sword and strict household formalities, has aged extremely well. The chorus, always a strong element in WNO performances, is used to forceful effect and Richard Armstrong conducted with the sturdy feeling for Verdi's dramatic pulse that always marked his work for the company. One regrets only the decision to trim the score by omitting second verses of some arias and cabalettas.

If the opera still did not wield a sharp enough cutting edge in this performance, there are a couple of main reasons. One is that the Italian text was rarely delivered with any clarity. All the singers were offenders in that respect and Suzanne Murphy's Elvira in particular, no matter how easily her beautiful soprano sails out in this music, even in the most awkward passages of coloratura.

The other is that the characters were never quite projected with the sort of elemental force that these early Verdi dramatic prototypes require. The most successful at generating sparks of electricity off each other were Malcolm Donnelly as Don Carlo and Alastair Miles as Silva. Both had the measure of their roles in a theatre of this size (not so different from the Teatro la Fenice in Venice, where *Ernani* had its premiere), although Donnelly ideally lacks vocal grace as a singer of early Verdi.

In the role of Ernani himself Paolo Kudriavchenko equally preferred generalised force of vocal delivery to niceties of phrasing. One suspects that it is with this character, the outsider and potential revolutionary who turns to the populace for his support, that Verdi instinctively felt his own sympathies to lie and so the role is an important one. Unfortunately Kudriavchenko's lacklustre showing in it would not easily win my vote.

Richard Fairman

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

BARCELONA

Palau de la Musica 21.00 Pierre Amoyal, accompanied by Jonathan Zak, plays violin sonatas by Franck, Chausson and Saint-Saëns. Tomorrow: Evgeny Svetlanov conducts the Russian State Symphony Orchestra. Wed: Midori. Fri, Sat and Sun morning: Manuel Galduf conducts the Barcelona City Orchestra. Sun evening: Eliahu Inbal conducts the Frankfurt Radio Symphony Orchestra (268 1000)

BERLIN

Schauspielhaus 20.00 David Zinman conducts the Berlin Radio Symphony Orchestra in Mendelssohn's Hebrides overture, Schumann's Piano Concerto (soloist Radu Lupu) and Brahms' First Serenade. Tomorrow: Musici di Roma. Wed and Thurs: Giulini conducts the Berlin Philharmonic. Fri and Sat: Günter Neuhold conducts the Berlin Symphony Orchestra. Sun: Horia Andreescu conducts the Berlin Radio Orchestra (East Berlin 2090 2156)
Philharmonie Kammermusiksaal 20.00 Vermeer Quartet plays string quartets by Boccherini, Dvořák and Elliott Carter. Thurs and Sun: Chamber Orchestra of Europe (West Berlin 2548 8232)
Deutsche Oper 19.30 Peter Schneider conducts Günter Krämer's production of Die Entführung aus dem Serail, with Luba Orgonasova and Matti Salminen, also Thurs and Sun. Tomorrow and Fri: Lucia di Lammermoor. Wed and Sat: Le nozze di Figaro (West Berlin 3410 249).

BRUSSELS

Palais des Beaux Arts 20.00 Vadim Repin, accompanied by Alexander Markovich, plays violin sonatas by Mozart, Franck and Beethoven. Tomorrow: I Flamminghi play music by Salieri, Haydn and Mozart. Fri and Sun: Eri Klas conducts the Belgian National Orchestra (507 8200)

CHICAGO

Orchestra Hall 20.00 An evening with the Modern Jazz Quartet. Tomorrow, Thurs, Fri afternoon, Sat: Barenboim conducts the Chicago Symphony. Fri evening: Jessye Norman. Sun: St Paul Chamber Orchestra (435 6666)

COLOGNE

Philharmonie 20.00 Gerhard Oppitz plays piano music by Brahms. Wed: Semyon Bychkov conducts the Orchestre de Paris. Thurs: Tatiana Nikolaeva (2801)

COPENHAGEN

Royal Theatre 19.00 Nicolas Joel's production of Lohengrin, with Eva Johansson as Elsa. Tomorrow: Bournonville double-bill. Wed: Ariadne auf Naxos. Thurs: Bournonville's Abdallah. Fri: Le nozze di Figaro (3314 1002)

GENEVA

Grand Théâtre 20.00 Friedemann Layer conducts Francois Rochaix's production of Così fan tutte, also Wed and Sat. Thurs: Robert Holl song recital (212311)

LONDON

Covent Garden 19.30 Kenneth MacMillan's Royal Ballet production of Manon, also tomorrow. Wed and Sat: Death in Venice. Thurs and Fri: world premiere of new MacMillan ballet (071-240 1066)
Queen Elizabeth Hall 19.45 London Brass play music by Takemitsu, Percy Grainger and others. Tomorrow: Cleveland Quartet. Wed: Academy of St Martin in the Fields. Thurs: Fauré's Requiem. Sat and Sun: Roger Norrington and the Brahms Experience (071-928 8800)
Barbican 19.15 BBC Television Young Musician of the Year, including Young Composer of the Year award. Wed: Raphael Wallfisch plays Elgar's Cello Concerto. Thurs: Jeffrey Tate conducts the LSO. Fri: Andrew Davis conducts Vaughan Williams and Britten. Sat: English Chamber Orchestra (071-638 8891)
Royal Albert Hall 19.30 An evening with Dudley Moore, with the BBC Concert Orchestra and Dudley Moore Trio. Repeated tomorrow (071-589 8212)

MILAN

Teatro alla Scala 20.00 Borodin Quartet. Wed and Sun: Iphigénie en Tauride. Thurs, Fri, Sat: Manon Lescaut (7200 3744)

NEW YORK

Carnegie Hall 20.00 Vladimir Ashkenazy conducts the Cleveland Orchestra in Prokofiev's Second Violin Concerto (soloist Joshua Bell) and Shostakovich's Eighth Symphony. Thurs: Klaus Tennstedt conducts Beethoven. Sat: Moscow Philharmonic. Sun: tribute to Leonard Bernstein (247 7800)
Metropolitan Opera 18.30 James Levine conducts Parsifal, with Siegfried Jerusalem, Bernd Weikl, Kurt Moll and Waltraud Meier, also Fri. Tomorrow and Sat: Rigoletto. Wed: Le nozze di Figaro. Thurs: Don Carlo (362 6000)

PARIS

Auditorium Forum des Halles 19.00 Song recital by Joan Rodgers, accompanied by Roger Vignoles. Tomorrow in the Châtelet: Luca Pfaff conducts world premiere of Pascal Dusapin's oratorio La Melancholia. Fri: Lorin Maazel conducts Ensemble InterContemporain (4028 2840)
Théâtre des Champs-Elysées 20.30 Song recital by Chris Merritt, accompanied by Harriett Lawson-Sain. Tomorrow and Wed: Ballet Cristina Hoyos. Fri: Marilyn Horne sings Rossini. Sat: Cecilia Gasdia (4720 3637)
Opéra Comique 20.00 Song recital by June Anderson (4286 8883)

● This week's other events: two final Opera Ballet performances of Picasso et la Danse tomorrow and Wed at the Palais Garnier (4742 5371); Elektra at the Opéra Bastille tomorrow and Fri (4001 1616); a Beethoven and Rossini concert tomorrow in the Salle Pleyel, conducted by Armin Jordan (4561 0630); and a special focus on British composer George Benjamin at the Bastille Amphitheatre on Thurs, Fri and Sat (4001 1616).

ROME

Teatro dell'Opera 20.30 Salvatore Accardo is director and violin soloist with the Orchestra of the Teatro dell'Opera. Wed and Sat: La Gioconda. Thurs and Sun: Tosca (488 3641). Thurs in Teatro Olimpico: Kronos Quartet (323 4890)

VIENNA

MUSIC AND DANCE
Staatsoper 19.00 Bruno Weil conducts Die Entführung aus dem Serail, with Cheryl Studer, Laurence Dale and Heinz Zednik, also Thurs. Tomorrow and Fri: L'elisir d'amore with Pavarotti. Wed: Khovanshchina. Sat: Der Rosenkavalier. Sun: Aida (51444 2960)
Musikverein 19.30 Isaac Karabtchevsky conducts the Tonkunstler Orchestra in music by Honegger and Schumann. Tomorrow: piano recital by Krystian Zimerman. Wed: guitar recital by Narciso Yepes. Thurs: Beethoven chamber music with the Salzburg Soloists. Fri: Emerson String Quartet. Sat: Hilliard Ensemble. Sun at 11.00: Riccardo Muti conducts first of the Vienna Philharmonic's 150th anniversary concerts (505 8190)
Ronacher 20.00 Repertory Dance Theatre of Utah in choreographies by Merce Cunningham, David Parsons, Charles Moulton, Mitchell Rose and Laura Dean. Wed and Thurs: DanceNoise New York. Fri and Sat: Bebe Miller and Company of New York. Vienna Dance Festival runs till March 29 (586 1676)

THEATRE
This week's repertory at the Burgtheater includes Hofmannsthal's Der Schwierige directed by Jürgen Flimm (tomorrow), Kleist's Penthesilea directed by Ruth Berghaus (Wed and Thurs) and Macbeth directed by Claus Peymann (Fri and Sat). The Akademietheater has plays by Sean O'Casey, George Tabori and Brecht (51444 2218). Vienna's English Theatre (Josefsgasse 12) has performances of Richard Harris' thriller The Business of Murder, daily except Sun (402 1260).

ZURICH

Opernhaus 20.30 Josef Protschka, accompanied by Hans Dieter Freyer, sings Schubert's Die schöne Müllerin. Tomorrow and Sun: Don Giovanni with Ruggero Raimondi and Cecilia Bartoli. Wed and Sat: Le Grand Macabre. Thurs: ballet double-bill. Fri: Entführung (262 0909)
Tonhalle 19.30 Song recital by Louise Michael, accompanied by Reto Fritz. Tomorrow: Stephen Bishop-Kovacevich plays Beethoven. Wed: Nikita Magaloff. Thurs: Emerson String Quartet. Sat: Maria Joao Pires (261 1600)
Schauspielhaus 20.00 Arden of Faversham, Elizabethan thriller directed by Terry Hands, also Sat and Sun. Tomorrow: Dürrenmatt's The Physicists (221 2283)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Gram Perry and Colin Chapman

Super Channel
0630-0900 (Mon) FT East Europe Report – weekly indepth analysis from FTTV
0830-0900 (Tues) Spiegel TV – Intl Report – the real world of documentary
2130-2200 (Tues) Media Europe – what's new in European media business
2130-2200 (Wed) FT Business Weekly – global business report with James Bellini
0830-0900 (Thurs) Media Europe
2130-2200 (Thurs) FT Eastern Europe Report
0830-0900 (Fri) FT Business Weekly
2130-22.00 (Fri) Spiegel TV – Intl Report

Sky News
0130-0200 (Mon), 2130-2200 (Thurs), 0530-0600 (Fri) FT Business Weekly

SATURDAY

CNN
0900-0930 World Business This Week - a joint FT/CNN production
1900-1930 World Business This Week

Super Channel
1830-2000 FT Eastern Europe Report

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1800-1830 FT Business Weekly

Sky News
1330-1400, 2030-2100 FT Business Weekly

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Monday March 16 1992

Perestroika minus glasnost

WHO WAS right: Mikhail Gorbachev or Deng Xiaoping? On the face of it, recent events in what used to be the two great bastions of doctrinaire Marxism-Leninism appear to throw that question into stark relief. In the former Soviet Union, the collapse of communism has been accompanied by economic misery and social chaos. In parts of still-communist totalitarian China, however, a form of capitalism is thriving, bringing with it an economic boom and strongly improving living standards.

What is more, it seems that the ruling Politburo – encouraged by the 87-year-old Deng – is gearing up for another drive for economic reform. Although the process is fragile and vulnerable to attack from party hardliners, it is beginning to look as if China is again setting itself unequivocally on the road to the market – and that it has just as much chance of succeeding as has Russia in its own anarchic transformation.

In fact, contrary to conventional wisdom, China never really abandoned the path of reform in the past three years – the repression of June 1989 notwithstanding. At the centre, to be sure, Tiananmen square did seem to presage a pause in Beijing's opening to the outside world, and bring hardliners to the fore, with their warnings against instability and cultural contamination. But all the while, out in the fields and factories, private economic activity continued to grow; foreign investment to flow in; and exports to mushroom. In short, market reforms have shown astonishing resilience – to the point where they may be declared to have developed their own unstoppable momentum.

Reformers' initiative

Now the reformers have again seized the initiative. After months of ideological struggle, the official press last week carried banner headlines endorsing Deng's line in favour of foreign trade, investment and management practices. The decks are evidently being cleared for the crucial 14th party congress this autumn, which – if Deng and his acolytes have their way – will set the seal on reform policies and usher in a new, somewhat younger generation of party bosses to implement them.

Deciding the line, of course, is only part of the battle, and the challenges facing the leadership are immense. For alongside China's rapidly growing private and collectively-run businesses – concentrated mainly in the south – is a collection of state-run industries in a state of near-collapse, with losses and debts that are sucking the state coffers dry. The bureaucracy is stultifyingly inefficient. Pricing signals are hopelessly confused, making sensible management decisions virtually impossible.

Social dislocation

None of these problems will be resolved without great economic and social dislocation. For example, the leadership has little chance of improving the profitability of state industry without imposing job losses on a massive scale. This may be politically infeasible, which is why the state has in recent years relied on private sector activity and foreign capital as the twin motors of prosperity.

People should not delude themselves that a further loosening of the economic throttle will be followed by a relaxation of the party's ruthless political grip. On the contrary, the lesson Deng drew from the overheating of the economy which preceded Tiananmen is that economic reform necessitates the maintenance of tight political control. The continuing strains that result – caused by corruption and by growing inequalities between and within regions – are likely to reinforce that view in Beijing.

Nevertheless, there is little doubt that the economic transformation now under way will ultimately spark demands for greater political freedom, and that the authorities will have to listen, just as they have been forced into another wave of market reform to maintain the growth in living standards. While remaining strong in their condemnation of human rights abuses, western governments should seek to encourage such economic change in China. That means keeping the import and investment channels open, not attaching political conditions to trade concessions as the US Congress has been trying to do.

The economic questions

IF THEY were to consider only their bank accounts, many FT readers would quickly decide how to cast their ballots. Large numbers would, after all, suffer from Labour's announced fiscal proposals. But there is more to life than one's wealth. Many readers are, for example, concerned with how the outcome might affect both the economy and their businesses. Yet identifying what difference the election might make to either is not quite so simple as a quick glance at our poll of business leaders today might appear to suggest.

If, for example, voters examine monetary policies, they will find they can have any they like, so long as it is the Bundesbank's. Even over the extent of government borrowing, few differences stand out. In last week's Budget, the Treasury forecast a public sector borrowing requirement of some 6 per cent of gross domestic product, before privatisation receipts, over the next two years. A Labour party wanting to borrow for investment is, therefore, unlikely to get away with a larger fiscal deficit than Conservatives committed to balancing the budget over the cycle.

It is on levels of taxation that likely differences emerge. If Labour is to match the higher public expenditure it desires with "prudent" borrowing and no more extra taxation than already announced it must have a rapid economic recovery. But, barring a large devaluation, Mr Smith would have no more control over that than hapless Mr Lamont.

Fallible forecasts

The Treasury's latest forecast would console the shadow chancellor, had its forecasts not proved so fallible. Average growth is put at just over 3 per cent a year between 1991-92 and 1996-97, which is no faster than the recovery from the last recession. But conditions then were more favourable. What would happen if such a recovery were not to materialise? If Labour had to choose between higher taxes and cuts in public provision, would it choose the latter? If not, would the UK's advantage of a relatively low burden of taxation for European standards disappear?

Yet it is over policy towards the supply side of the economy that differences are most clear. Which of the potential governing parties is most likely to ensure effective provision of public services? And which will determine the right balance between promotion and regulation of competition?

That the UK needs better education and training and more investment in infrastructure, there can be little dispute. With public spending likely to be tightly constrained, however, the question is how additional resources are to be found. And which party can arrange the most effective delivery? The Conservatives may have demoralised the providers of public services, but Labour's pandering to producer groups might well throttle what limited market pressure the government has managed to introduce.

French camp

For those concerned with the relation between the government and the market, Brussels is the first port of call. It is via European Community decisions on trade, competition, industrial and labour market policies that a British government's influence on the domestic economy is increasingly channelled. Where the Conservatives stand is known, but what of Labour? Will it fight for a competitive and outward-looking EC, or will it join the French camp?

Even more broadly, can a party that has condemned almost every major industrial change – from the downsizing of the steel industry in the early 1980s, to that of the coal industry in the early 1990s – abide by the market's verdict? Can it, for example, turn its doubts about take-over fever into anything more than a way of upholding the managerial status quo?

If the known weaknesses of the Conservatives and the obvious doubts about Labour are too disturbing, the economically-concerned voter can always choose the thoroughly European and market-oriented Liberal Democrats; that is if he is prepared to vote for a third force rather than a potential winner. But mostly, voters to whom these issues are of paramount concern will want to scrutinise the rhetoric of Mr Kinnock's economics team.

Patti Waldmeir on the referendum which will steer South Africa

Stark options

Tomorrow, white South Africans will choose between danger and disaster, in a referendum which will determine the fate of one of the world's most troubled societies.

The choice – between a fragile peace and civil war, between apartheid fantasies and the reality of a multi-racial future – has polarised the white nation and drawn blacks into new conflict. It is the biggest political choice white South Africa has faced, and many potential voters may avoid it altogether. As for the rest, it is not yet certain that they will make the choice urged on them by the international community, and by their brave reformist president, Mr F.W. de Klerk.

Both sides – the ruling National party, which is asking for a "yes" vote to endorse negotiations with blacks, and the ultra-right Conservative party, which wants "no" voters to back its plans for modernising apartheid – predict a close poll. The landslide triumph seen as crucial by Mr de Klerk may not materialise.

Much could change before polls open in 24 hours' time. The anxiety of the Nationalists could galvanise reluctant "yes" voters into action; or, conversely, the outside chance of victory for the Conservatives could give the "no" campaign new life. With the publication of opinion polls banned during campaigning, neither side knows its true strength.

The Conservative party, with its allies the neo-Nazi Afrikaner Weerstandsbeweging (Afrikaner Resistance Movement, AWB) and the Herstigte Nasionale party (Reconstituted National party, HNP), has undoubtedly run a more powerful campaign. That is scarcely surprising: the Conservatives have found it easy to tap emotion and prejudice, fear and anger. Mr de Klerk has sought the more difficult goal: to capture the soul of the white voter through reason. It is not clear he has succeeded.

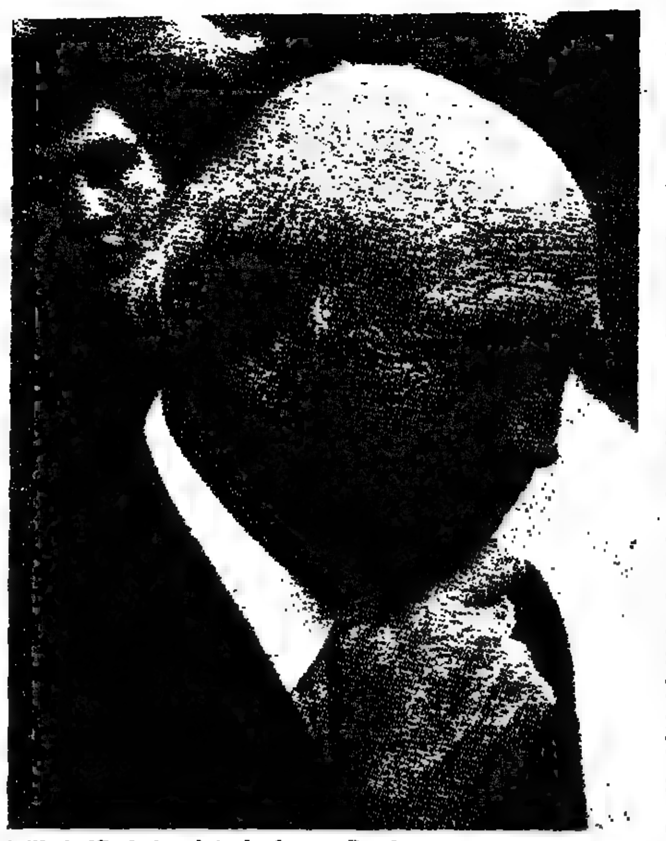
The Conservatives kept their message simple: vote "no", and stop the advance of communism in the form of the African National Congress (ANC), with its close ally the South African Communist party (SACP). The Nationalists ran a wordy and unimaginative campaign.

Repeatedly, Mr de Klerk called on voters to resign themselves to the inevitable: that a huge majority of blacks cannot forever be governed by a small white élite. He experimented with visionary rhetoric, promising a grand and beautiful multi-racial future; but his efforts fell flat with audiences far more worried than inspired by change.

After all, Mr de Klerk's ideal is not the integration of South Africa's peoples into one colour-blind nation; it is to create a balance of power between racial groups which will eliminate conflict while preserving cultural differences. The ANC wants a melting pot; Mr de Klerk prefers a rainbow.

Most South Africans, barring a small minority of liberal whites, have a similar vision. They know white domination must end, and will vote for the party which strikes the best bargain for white interests.

Mr de Klerk has promised to prevent black domination, by insisting on traditional liberal protections and enforced coalition government. The Conservatives preach a neo-apartheid vision of racial separation which they defend as Afrikaner nationalism, and which Mr de Klerk condemns as neo-fascist. Tomorrow's vote will tell whether whites believe Mr de Klerk's vow to share power without abandoning it, or Mr Treurnicht's promise of security in separation.



F.W. de Klerk: tough task of appealing to reason

Unless the result is clearly a landslide, dispute will inevitably arise over the strength of Mr de Klerk's mandate: if turnout is low, a 55 per cent majority will do little to support his claim to negotiate for white South Africa.

But if a large majority (say, 60 per cent) votes "yes" to a "continuation of the reform process . . . aimed at a new constitution through negotiation" (the essence of the wordy referendum question), blacks will come to power in an interim government within months. Parties to the multi-racial negotiating forum, the Convention for a Democratic South Africa (Codesa), will have had a serious fright at the prospect of right-wing victory; they will rush in a multi-racial interim government which would be less vulnerable than the Nationalists on their own.

The outlines of such a deal have been sketched in during bilateral talks between the ANC and the government – the only two parties whose agreement is truly essential. An interim executive could be appointed by Codesa as early as June, with multi-party committees to oversee the security forces, local government, the budget and foreign affairs, as well as independent commissions to control the media and multi-party elections.

Within a year from then, elections would be held to a unicameral legislature which would both replace the current parliament and draw up a new constitution. This represents a major concession from the Nationalists, who have always insisted on a second chamber, a sort of "house of minorities", to protect whites. Such a legislature would meet the ANC's main demand: that an elected constituent assembly draw up a post-apartheid constitution, with decisions taken by two-thirds majority.

This body would sit for about a year – not the 10 years originally demanded by the government – until elections were held under a new constitution which would enforce power-sharing for a further five years. The new parliament would be bicameral, with disproportionately large representation for minority political parties by region. And crucially, many powers would be devolved from central government to the regions. For this is the key to the National Party's plan for preventing black domination; government officials believe they have ANC agreement to maximum devolution.

Details of this plan could change – especially if a big "yes" vote inspires Mr de Klerk to take a tougher line – but an interim government should be put swiftly in place. At least as importantly, a clear "yes" majority could provoke the Conservative party to split, with a large chunk entering talks on a more moderate platform. The risk is that the radical rump of the party – along with the paramilitary AWB – would turn increasingly violent once legal forms of opposition had failed. The result could be a smaller but more radicalised right, creating havoc as a spoiling force.

The consequences of a slim "yes" majority, perhaps with a low turnout, are more difficult to predict. Mr de Klerk will have been denied the clear moral and political victory he sought, and negotiations could lose momentum. Here, the role of the security forces could become crucial: for while the largely conscript army has no tradition of taking power, the generals might find their tenuous commitment to political reform weakened, and drag their feet over Codesa. Negotiations would continue, but with less speed.

The prospect of a "no" vote provokes apocalyptic visions from most commentators. Mr de Klerk, the great hope of South African democrats, would resign; his government would lose a general election fought within electoral boundaries which give heavy weight to conservative rural areas; inevitable black protest would provoke security force repression; and the west would impose further sanctions.

None of this would happen overnight, and the behaviour of the Conservatives – who claim to be willing to enter negotiations with blacks to create a confederation of racially-based states – would also be important. But Conservative policy is irredeemably racist, and it is hard to see room for accommodation with the ANC, which would be forced to resume a campaign to overthrow the government. Civil war would ensue; and though South Africa probably does not have the potential for conflict of Lebanon or Yugoslavia, many would die – far more blacks than whites, as always, in South Africa.

Whatever the referendum outcome, 1m or more whites will have voted to reject a multi-racial South Africa; they will not disappear with the polling booths. It is hard to imagine a lasting solution without them; and they are unlikely to compromise unless heavily beaten in the referendum.

For it could prove dangerous to force artificial political unity on a country which has for so long clung to diversity. "It is not possible to subject a nation forever," argues Prof Carel Boshoff, an Afrikaner theologian who is the respectable face of the right. "There will always be a struggle for self-expression, even if it takes 50 years." And unless this struggle can be brought to the negotiating table, it will destabilise South Africa for years to come.

Bad news for Britain

A hung parliament would be the worst outcome of the election, argues Malcolm Rutherford

There is a fashionable idea around in Britain that a hung parliament will somehow be good for us. It is often coupled with the view that constitutional reform is an elixir for future British achievement. Let parliament be hung, and reform will follow.

Such thinking is romantic escapism. In the first place, a hung parliament – by definition – would give a disproportionate role to MPs from Northern Ireland. There will continue to be 17 of them, whatever happens to voting patterns elsewhere. They have one characteristic in common: their primary interest is in Northern Ireland. Thus, their votes on other matters will be up for grabs, according to what they can get out of it for their own region.

Far more important than that, constitutional reform is perhaps the one subject on which all MPs – perhaps with some justification – regard themselves as experts. Indeed, there is by now a well-documented paradox: the only way to achieve constitutional reform in Britain is through parliament, yet parliament is incapable of delivering.

In the late 1960s, the House of Commons spent two years debating the reform of the House of Lords. It failed because of a cross-party alliance of maverick MPs. In the late 1970s, it spent more than two years debating devolution for Scotland and Wales.

Again, it failed to deliver satisfactorily because backbench MPs could stick down any amendments they liked. The final legislation took not only an absurd amount of time; it failed to meet the original objective of giving a measure of devolution to the Scots.

Just over 10 years later, the question is back on the agenda as though the earlier debates had never been.

Today, a central issue is said to be proportional representation. Let us leave aside the merits of the argument as such, and concentrate on the practicalities. PR is a very complicated subject. It comes in many forms. Ask parliament to legislate for it, and almost every MP will have a different view. If they do not have views at the start, they will find it necessary to invent them, for constitutional reform is a game for which you make the rules as you go along. Anyone can play, especially MPs.

There is another game much played in Britain. It consists of inventing new reasons every few years to explain the country's relatively poor performance compared to that of other European countries. It used to be the stagnant society – the lack of harmony between the two sides of industry. Then it was the failure to enter Europe at the proper time. After that, it was calls for more science-based industry and picking winners. The search for a social contract was followed by the crusade to curb the power of the trade unions.

All of those rationalisations had an element of truth: without an attempt to act on them, we might be even worse off than we are today. Demands for constitutional reform, however, contain an element of intellectual luxury.

As it happens, we are being constitutionally reformed by the week, simply by our membership of the European Community. Yet few people stopped to read the Treaty of Rome and all its subsequent developments. Instead, there is a fond idea that by tinkering with – or even root-and-branching – our own system, we may be able better to compete.

There is no overwhelming evidence that I know of that our failings lie in our constitution, or lack of it. In England we have what amounts to a 2½ party system. The function of the third or half party is occasionally to deliver the two bigger parties a kick in the pants: for instance, by winning seats in by-elections, coming up with a more attractive leader and even the odd idea. Yet I have never come across an idea in the Liberal party, the old Alliance or the Liberal Democrats that could not have been found somewhere in one or other, and sometimes both, of the two big parties. Labour and the Tories are already coalitions: we do not need any more.

Lest I appear reactionary, I should add that there are some constitutional reforms that I would welcome. One would be fixed-term parliaments: not because this would reduce the possibility of governments seeking to bribe the electorate before the election.

They could still do that, but they would be unable to play silly guessing-games about election timing. At least one British government that deserved to stay in office threw power away by going to the country at the wrong times. That was Mr Heath's in 1974. Mr Major may have done the same by waiting too long.

Two other reforms are a smaller parliament and less legislation, but you will not get either out of a parliament that is hung. If it comes, you will be bored by it well before the game is over.

And if you want a different electoral system, look at the French, who will be voting next Sunday. Their system of "first-past-two-posts" was much favoured by that old Tory leader, Lord Home. He was also not averse to Scottish devolution. Reform is a slow process.

OBSERVER

Up the wrong tree

■ Checking on the survival prospects of various types of apes, the Wisconsin Regional Primate Research Center sent questionnaires to other bodies listed by a scientific database as having similar interests, including "The Primates World Relief and Development Fund" in Toronto.

Back came a courteous letter, reading (in part): "I think the primates in your study are perhaps of a different species. While it is true that our primate occasionally enjoys bananas, I have never seen him walk with his knuckles on the ground or scratch himself publicly under the armpits."

It was signed by the Rev Michael Ingham, principal secretary to Archbishop Michael Peers, Primate of the Anglican Church of Canada.

The letter added: "The subject of primate biology might be of great importance in your field but, alas, not so in ours. There are a mere 28 Anglican primates in the whole world. They are all males, of course, but so far we have had no problems of reproduction."

Euro-yawn

■ Britons were made to look thoroughly second-rate Euro-citizens by reports that, whereas the UK's Stationery Office won't even be selling the 350-page Maastricht treaty on European Union until after the election, the Danish government is freely distributing 300,000 copies of the full text.

But it turns out that the Danes are nowhere near such Euro-goodies as the reports implied. The reason for the printing marathon is not popular interest in the treaty, but that a referendum on it will be held on it on June 2, and the result will be binding on the legislature.

Current signs are that the supply of the copies, one for every nine households, is doing more good for opponents of Maastricht than for supporters including five of the eight parties represented in Denmark's parliament, the Folketing.

Even a glance at the text, written in lawyerese, is enough to turn off the Dane-in-the-street. "All it means is more power to Brussels, and I'm not going to vote for that" is the typical answer to opinion polls.

Gift of the gab

■ Meanwhile the final days of South Africa's referendum campaign are attracting some unexpected pieces of free advice from outside. Take for example the letter, published in Johannesburg's biggest evening paper The Star, from Tony O'Reilly, the Irish president of Heinz.

In it, he offered South Africans the wisdom of the poet W B Yeats, originally voiced in 1924 after the bitter civil war which followed the British withdrawal from Southern Ireland in 1921: "The Irish won but then again they lost, because they never made friends with themselves."

O'Reilly followed those words with his hope that "you make friends with yourselves." Then he added that Heinz had an "especial" desire to invest in the new South Africa, "one of the most wonderful countries on the face of this Earth."

Knowledge gaps

■ Where would you expect to find the following: Adam Smith Society, Alchemists (Elizabethan Studies), Association for the Historical Study of the English Revolution, Association for the Study of Modern English Law?

They are four of the first five names listed in a directory of British Studies Societies in Japan, compiled by the

"I have this acute baby-kissing fetish"

British Council. The second on the list, which would have given the game away, is the Agatha Christie Fan Club of Japan.

The 113 societies' interests also include Bernard Shaw, Bertrand Russell, the Brontës, Browning, Chaucer, D H Lawrence and so on down to Yeats – who might be counted as British for at least the earlier part of his life.

According to Tadashi Yamamoto, president of the Japan Centre for International Exchange, the list shows Japanese intellectuals' awareness of Britain's literary and artistic heritage. By contrast, he told the UK-Japan 2000 Group's latest meeting, "there are very few scholars or experts in Japan well versed in the current political dynamics of the UK or its policy process".

The group hopes to put that right by promoting educational exchanges between the two countries. When its members met Prime Minister Major, however, his special concern seemed to be to spread knowledge of cricket – and not only to the East. Thanks to the Japan Festival, he said, there were now thousands of British schoolchildren who knew more about sumo wrestling than about their own national summer game.

Stolen wheels

■ Travel around west Germany and you will find plenty of people who wish the wall between the two Germanies had never come down. This not simply because they, like everyone else, object to paying higher taxes to finance reunification. The reason is that they have just had their car stolen.

The wall's removal has apparently led to a massive increase in car theft in the west of Germany. According to Allianz, the Munich-based insurance company, organised gangs are behind a 50 per cent increase in stolen cars last year.

Most of the cars go to eastern Europe and the recovery rate is extremely low. Allianz says that as many as 60,000 stolen vehicles were shipped out from Germany to Poland alone last year, of which only 1,700 were recovered by the police.

The cars are stolen to order and can be delivered within 24 hours, the insurance company recounts. It seems that the clients are discerning: most of the stolen cars are large luxury BMWs and Mercedes and nobody is bothering to steal the Trabants which still clutter East Germany's roads.

Won't do nicely

■ A colleague shopping for a new television in London's Tottenham Court Road, home of cheap consumer electronics, was told the set of his choice would cost him a mere £175 – until he brought out his American Express card.

"Haven't you got Visa?", said the shopkeeper. "I can't go down to £175 on American Express."

On the road to righteousness

Christina Lamb assesses the Brazilian economy two years after President Collor took office

Outside the petrol stations along Rio's Atlantic coast road lies evidence of a sea-change in *Brazilian attitudes*. Large discount signs mark the country's first fuel price war. Those with the best offers are rewarded by queues of cars outside.

The price war is a symbol of a trend President Fernando Collor has set in motion during his first two years in office: one of the world's most state-regulated countries is finally discovering the benefits of a free market. A year ago, it was illegal to discount government-set pump prices.

Mr Collor may not yet have succeeded in bringing inflation under control or in stimulating the world's ninth-largest economy, but he has persuaded the people that Brazil can no longer resist the global move towards the market. "Collor has succeeded in implanting a liberal agenda and this process is irreversible," says Mr Cesar Maia, an economist from the Democratic Movement, the main opposition party.

It is now possible openly to suggest ending the *monopoly* of Petrobras, the state oil giant – heresy a year ago. A project to deregulate the country's inefficient ports is before Congress. Discussion on the $120bn foreign debt focuses not on whether to pay it, but how. The once zealously enforced ban on computer imports ends in October. The stock market has opened to foreign investment. Regulatory discrimination against foreign companies is being stripped away.

The most outstanding demonstration of the change is the acceptance of privatisation. The first big sale finally got under way last October amid bloody riots. Only five months later, Mr Luiz Antonio de Medeiros, leader of Força Sindical, a trade union, is asking the government to speed up the sale of steel companies so that they can compete better.

The old Brazil is still visible. The car producers threaten mass unemployment at every mention of reducing import tariffs. The airlines still collude to reduce routes and decide prices, and manufacturers still tend to react to recession by lifting prices. But these are the *last gasps of a dying animal*.

The change of direction should not be underestimated. Until March 1990, Brazil was one of the world's most closed economies. Imports represented just 5 per cent of gross domestic product and 1,500 products were banned altogether. Prices had been controlled for many years.

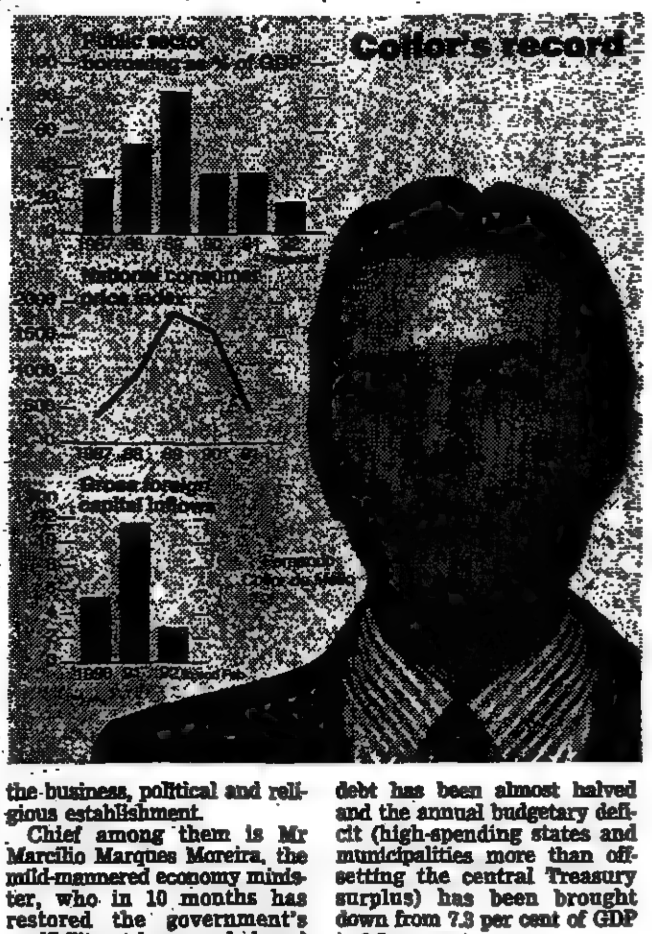
Moreover, this state-run model was accepted throughout society. Mr Mailson da Nobrega, an economic consultant and one of many former finance ministers, says: "In Brazil, economic nationalism was not just the product of a small élite but demanded by everyone – the military, intellectuals, politicians, business, students, workers, fascists, communists, even liberals."

And until the last decade it seemed successful. Brazil built a huge industrial base while amassing the developing world's largest foreign debt. From the 1940s to the 1980s it was one of the fastest-growing economies. Even when inflation started spiralling upwards in the mid-1980s, wages and prices were so highly indexed that the disruption experienced by its continental neighbours was not felt in Brazil.

Consequently Brazil has been the last Latin American economy to face reality. It is behind its neighbours in the reform process. While Mexico, Chile, Venezuela, Argentina and Peru were putting their finances in order, liberalising and deregulating over the past decade, the Brazilian government was still spending. As a result, it now has the highest monthly inflation rate, at 21.5 per cent, and highest import tariffs in Latin America. It is in its third year year of recession.

As growth started to flag, the government looked outside for a scapegoat, blaming the creditor banks and the International Monetary Fund. Mr Pedro Motta Veiga, director of the Foreign Trade Foundation, says: "It was like eating to one's heart's content in an expensive restaurant without the money. Now we realise it means an awful lot of washing up afterwards."

The big question is whether, having introduced a *market* model for the economy, Mr Collor can go on to stabilise it. While his first two years were characterised by maladministration and confrontation, there are some indications that the 42-year-old former playboy has grown up. The Collor government of March 1992 has changed greatly from that of March 1990 – all but one of the original team has been replaced by older figures who are skilled at negotiating with



the business, political and religious establishment.

Chief among them is Mr Marcilio Marques Moreira, the mild-mannered economy minister, who in 10 months has restored the government's credibility at home and abroad and is personally responsible for its recent accords with the IMF for a $2.1bn loan and the Paris Club for the rescheduling of its $21bn official debt.

He has freed prices and unblocked half the $80bn in savings frozen by his predecessor, while managing to avoid the hyperinflation that characterised the Brazilian economy for years. For the first time, monthly inflation fell four percentage points last month in the absence of artificial measures, such as price controls. Above all he has, for the moment, convinced the nation *that shock plans do not work* and the only way to kill inflation is by tight fiscal and monetary policy, and sacrifice.

There has already been some fiscal improvement. Domestic debt has been almost halved and the annual budgetary deficit (high-spending states and municipalities more than offsetting the central Treasury surplus) has been brought down from 7.3 per cent of GDP to 2.5 per cent.

The country is seeing rewards for its new responsibility in terms of an increased inflow of foreign capital. Last year gross inflows doubled to $11.6bn and more than $1bn has entered the stock market since last July. In five months, foreign exchange reserves have gone from critically low levels to more than $12bn and Brazil is expecting a total of $2bn in foreign credit from the Japanese Eximbank and the World Bank following its recent accords with official creditors.

The aim now is to impose a further squeeze on state company *spending, bring in a new* tax regime in April, and continue the privatisation programme. The government is hoping for a 10 per cent increase in exports to boost the trade surplus from last year's disappointing $10.6bn (33 per cent down on 1989).

However, there are serious obstacles to the economy minister's objective of reaching monthly inflation of 2 per cent by 1993. Although this is the first time in recent years that a Brazilian government has really tried the fiscal recipe, economists believe it is relying far too heavily on monetary policy. There is a good reason for this in the form of political and constitutional hurdles which impede fiscal adjustment. The 1988 Constitution was designed to amplify the role of the state. It gives lifetime jobs to civil servants and even lays down hours for freelance photographers. So constrained, Mr Collor requires amendments to balance his books. He needs approval from a Congress where the governing bloc holds a minority of seats and where he must negotiate with 17 parties. With Congress more preoccupied by the municipal elections scheduled for October, economy ministry officials admit that the necessary changes will have to wait until next year.

In the meantime the government is relying on tight monetary policy to suppress consumption – real interest rates are at 40 per cent. Industry is bearing the brunt and last month saw a record number of bankruptcies in Sao Paulo, the industrial heartland.

The government's efforts to balance its budget are also in jeopardy. Falling tax receipts resulted in a 73 per cent drop in Treasury revenues last month, to their lowest level since Mr Collor took office. Mr Roberto Macedo, the economic policy secretary, admits: "It would be crazy to continue just using monetary policy – it would damage the economy and increase the domestic debt – but in the short term we don't have alternatives."

Suggestions for holding down inflation range from an incomes policy, price controls on basic products and indexing the economy to the dollar – the type of heterodox solutions that have been tried before, though never alongside genuine fiscal discipline. Mr Maia complains: "The situation is like a war with the troops entrenched. You can hold tight for a while but finally you must strike or the enemy will first. Our enemy is inflation."

Nor is it clear that Brazil, with the world's worst income distribution, can bear the social cost of a long adjustment programme. But Mr Macedo insists: "There may be a social cost but think of the cost of non-adjustment – we have already lost a decade through procrastination."

Samuel Brittan

Little 'Red Book' now needed for Europe

The most important aspect of a British Budget is very often not the tax *measures* announced by the chancellor, but a publication issued on the same day known as Financial Statement and Budget Report – or more briefly as the Red Book, because of the colour of its cover.

The publication originated in the obligation to give parliament information about the government's own accounts and is, indeed, traditionally signed by the financial secretary. But over the years, it has grown into the nearest thing to a full-scale economic survey that the British Treasury publishes.

Apart from outline accounts for the whole public sector, it also contains two other key chapters: one on the Medium Term Financial Strategy, and another on short-term economic prospects. The Medium Term Financial Strategy chapter focuses, rightly in my view, on the medium-term growth of the national income in cash terms ("Nominal gross domestic product") and its past and prospective division between inflation and real growth. The Red Book is also a mine of information on matters such as the Treasury's view of the growth of productive capacity, the development of the public-sector debt ratio, as well as trends in the growth of money supply and velocity, and much else.

The chapter on economic prospects is very useful, even to dyed-in-the-wool sceptics about short-term economic forecasting, like myself. For the effort to make a forecast forces Treasury economists to sketch a systematic and coherent picture of the past and present: which is far from simple, as economic statistics do not speak for themselves. Even in the rush of Budget day, I mentally earmark many of the charts and tables for subsequent use in Financial Times articles and longer pieces. The Red Book has the great advantage over commercial forecasters that it is not under pressure to put all the emphasis on simple forecasts and is able to treat history as something other than bunk.

None of this is to pretend that the Red Book contains a boring, cold-bloodedly impartial view of trends. Its purpose is to state government macroeconomic policy more coherently than the House of Commons would ever allow ministers to do. There must, of course, be some contributing economists whose own economic outlook is very different, and who privately sneer at people like me for taking the document seriously. Even they may learn something in the process of compiling the material.

What is the "but" to follow this encomium? It is that the main instrument for macroeconomic management is nowadays monetary policy, which even without full-scale European monetary union, is decided at a European level with the Bundesbank calling

The Budget Red Book covers decisions over which the UK government has little power

the shots. The true UK Medium Term Strategy is now to try to remain in the exchange rate mechanism at the present parity; and this will remain so irrespective of the election result. So the Budget Red Book has to rationalise policy decisions over which the British government has little power, and to concentrate on a geographical area, that of the UK, which is not the relevant unit for macroeconomic decisions.

What is clearly needed is a Red Book at the European level. Already, it is more sensible to ask whether demand in money terms is rising too quickly or too slowly in the core countries of the Community than it is in, say, Britain or France taken alone. It is European and not just British Nominal GDP that is relevant for European monetary policy.

For the moment, the Bundesbank may say that other countries make their own choice in pegging their currencies to the D-Mark, and that it will continue to make its decisions in relation to the German economy. But as other countries begin to satisfy the Maastricht conditions for monetary union, this approach will become less convincing; and once the immediate unification hump is over, the Bundesbank will find itself having to take into account the trends of the wider European economy and the views of other central bankers.

Who then should publish the European Red Book? It would be death to entrust this task to the Brussels Commission. The material would be out of date before it was even printed. It would be disseminated in a series of phoney leaks to Brussels correspondents, and not be made available conveniently and on time to economic commentators. It would have to respect too many national susceptibilities and political orthodoxy. Yet the Commission would not be able to resist using the document to push the case for centralisation and harmonisation.

The obvious body to publish the European Red Book is the European Monetary Institute, to be established at the beginning of 1994, as a precursor to the European Central Bank. But the Institute itself already exists in embryo in the form of the EC Committee of Central Bankers, which avoids becoming bogged down in the Brussels institutions by working very sensibly from the Bank for International Settlements in Basle. The Committee already has a small staff of economists, who are of a basically monetary orientation, but who are healthily sceptical of the competing orthodoxies in the field. It would be a very good exercise for them to start publishing a European Red Book every quarter.

The authors would have to be very cautious to start with, embody the financial targets of member governments and central banks, and try to put them into a coherent framework. But, in time, they could develop a perspective of their own, which will also govern their briefing of European central bankers; so it would not be just pie in the sky.

LETTERS

Gas industry conflicts in prospect

From Mr Ian Powe.

Sir, The five-month gestation period of British Gas's agreement to comply with the Office of Fair Trading report has illustrated the complexity of the UK gas industry. It has also demonstrated the conflict between shareholder and consumer interests which may arise following undertakings announced on March 11.

For shareholders, there is an explicit threat to their dividend when British Gas divests itself of 55 per cent of a market in which, last year, it made a profit of £281m at a 12.1 per cent rate of return on assets.

The related but implicit threat to consumers is that British Gas will seek to recover profits by raising the price of contract gas to industry and commerce while saving costs in the price regulated domestic market by lowering service standards to householders.

The notion that competition alone will keep industrial gas prices down is wrong. While British Gas is compelled to publish a schedule of prices, competitors will be happy to track the price of the dominant supplier and to watch the average price drift upward to the advantage of North Sea producers who have ownership and equity interest in much of the *emergent competition*. As a first move, British Gas can be expected substantially to reduce the availability of cheap interruptible gas which accounts for 50 per cent of its contract market by volume but yields little profit. It will do this by raising the price in the knowledge that, *initially*, the interruptible market has little attraction to competitors. It will seek to replace the load-balancing facility of the interruptible market by investment in more storage assets within the "gas transportation unit". As the new unit will be subject to a form of rate-of-return regulation, the increased asset base will provide justification for higher transport costs to British Gas and to its competitors. These will in turn feed through to higher prices and even to the abandonment of postalised prices (standard ones, regardless of where users are) in favour of regional differences related to the distance that the gas travels from terminal to factory site.

Who will keep an eye on all this is uncertain and seems to depend on whether the government will have time, before the election, to increase Ofgas's powers over British Gas through the Competition and Service (Utilities) Bill. From *the consumers' point of view*, better one regulator than several; the simultaneous involvement of OFT, Ofgas, Department of Energy and DTI has done little to speed this matter to a tidy conclusion.

Ian Powe,
director,
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IBM seeks to clarify issue of counterfeit memory

From R Rottke.

Sir, We refer to your article "IBM deals blow to computer leasing" (Employment, March 2), which contains information that may mislead your readers.

The issue is one of counterfeit memory: IBM has discovered that memory originally manufactured by IBM has been altered and refabricated by some third parties and misrepresented as genuine IBM parts.

It is this misrepresentation *that IBM wants to stop.*

This unlawful practice is detrimental to IBM's product integrity and overall reputation as a manufacturer.

Such refabricated parts are not covered by *IBM's* maintenance agreements; non-genuine IBM parts never were.

So, contrary to what your article implied, IBM has not changed its policy: IBM will continue to maintain re-configured products that contain genuine IBM parts.

Furthermore, *two additional* pieces of information will be of interest to your readers.

First, IBM did not change the price of its 128MB memory cards, as might be concluded by some readers of the article.

Second, your article also mentioned legal action by IBM in the US.

Regrettably however, it did not mention that the court has issued an order, based on an agreement between the parties, under which Comdisco, among other obligations, is obliged properly to represent and to label any altered memory and *to disclose the fact that such* memory is not eligible for IBM maintenance.

R Rottke,
external information,
IBM Europe,
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Fax machines would cut queues at Heathrow

From Jan R. Harrington.

Sir, In an electronic age, it is preposterous for people to have *to stand* in lines to have their passports checked on arrival at Heathrow.

All passports ought to be looked at by airline personnel on checking in, with the information then faxed or otherwise transmitted to a central processing facility.

That facility would *fax* back one of three messages: OK, No, or Verify.

All passengers with OK status would leave the aircraft in the UK and would not need to have their passports checked at all.

Those passengers with a No response would be denied boarding.

Those passengers *with* a Verify response would be subject to special examination on arrival.

This way of doing things would not increase check-in time, since it could be absorbed into the current security procedure. It would greatly increase speed on arrival.

Jan R. Harrington,
PO Box 746,
JA Farley PO
New York,
NY 10001.

Fax service

LETTERS may be faxed on 071-873 5938. They should be clearly typed and not hand-written. Please set fax machine for fine resolution.

Decision to reduce export credit insurance premium praised

From Mr Campbell E Dunford.

Sir, The British Exporters Association welcomes the Trade Minister's decision to reduce export credit insurance premiums for medium- and long-term business under the Portfolio Management System to a more realistic level ("Export insurance premiums cut by up to 50 per cent", March 10).

When the Portfolio Management System was introduced in early 1991, the government hoped that other countries would raise their export credit agency *premiums to UK levels*. That has not happened.

David Dodwell's article "Putting risk reality back into export cover" (World Trade News, February 4) makes the point that Italy is saying "no" to the Portfolio Management System unless the rest of the world *follows*.

As a result, while the Portfolio Management System relates risk to premium, its uncompetitively high rates have adversely affected our ability to export capital goods.

Other Organisation for Economic Co-operation and Devel*opment countries appear to* be winning contracts (and employment opportunities) in the UK's traditional Third World markets.

The British Exporters Association hopes that the government's decision heralds an ongoing review process which will cover not only premium rates but also Portfolio Management System market capacity – that is, the amount of cover available for individual countries.

Although some markets are highly price sensitive, the Export Credits Guarantee Department (ECGD) must be aware that others appear to be cover sensitive.

A degree of flexibility by ECGD to relate its policy to market needs would be welcomed by industry. The government's decision on premium rates *is a first step* in the right direction.

Campbell E Dunford,
chairman,
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FINANCIAL TIMES
Monday March 16 1992

Government concerned it may have underestimated strength of rightwing opposition

Close verdict forecast in S Africa poll

By Patti Waldmeir and Michael Holman in Johannesburg

SOUTH AFRICA'S white political leaders wound up their referendum campaigns at the weekend amid forecasts of a closely contested outcome to the poll that will shape the country's future.

President F.W. de Klerk, ending his tour of the country in the rightwing strongholds of Nylstroom and Pietersburg, told audiences the only alternative to continuing negotiations on political reform was violence and civil war. Dr Andries Treurnicht, leader of the rightwing Conservative party, warned that white South Africans would never accept rule by the African National Congress (ANC).

The government's initial confidence that it would comfortably obtain about 60 per cent of the votes in tomorrow's poll has been replaced by alarm at an apparent surge in support for a "no" vote.

Although the alarm may be a tactic to encourage a high turnout of supporters, it also reflects a genuine and growing concern that the depth of backing for the rightwing alliance has been underestimated. Mr de Klerk's call for a "landslide" victory now looks optimistic. Senior government officials acknowledge privately that they would be relieved to get 55 per cent of votes.

But if the turnout among the 3.3m white voters is low, the right will claim a moral victory and insist that the government has no mandate for the radical changes it has set in train.

The referendum has achieved what the right has long sought: an alliance ranging from the neo-Nazi AWB to the Conservative party itself, the senior partner in the coalition. Forty-six rightwing organisations have banded together to form the Regse Blanke Volksfront (Right White People's Front). The right has played on fears of poor whites and civil servants who feel threatened by black advancement, stressed the rising crime rate and made much of the alliance between the ANC and the South African Communist party.

Violence continued to mar the run-up to the poll, with 12 more people killed in Johannesburg townships at the weekend. In all 250 have been killed since the referendum was announced three weeks ago, raising suspicions that the violence has been fomented by rightwing whites to create a climate of insecurity which would favour a "no" vote.

Biggest choice, Page 16

Burmese army steps up attacks on rebels

By Victor Mallet in Bangkok

THE BURMESE army redoubled its attacks against ethnic minorities on the country's borders at the weekend, threatening the rebel base of Manerplaw on the Thai frontier and prompting further concern in the region over an exodus of refugees.

According to Karen rebels and Thai army officers, Burmese troops loyal to the ruling military junta captured the strategic Sleeping Dog Hill near Manerplaw on Saturday.

Fierce fighting was continuing in eastern Burma yesterday, but if government forces hold the hill they will be able to subject Manerplaw, long controlled by the Karen National Union, to a sustained artillery bombardment. Opponents of the junta say the Burmese army has been ordered to capture Manerplaw in time for Armed Forces Day in Burma on March 27.

Manerplaw has taken on an added significance for the opposition and for the junta because the Karen rebels have been joined by monks and students, and by politicians from Rangoon who won the 1990 elections but were deprived of power by the military officers of the State Law and Order Restoration Council.

On Burma's western flank, Moslem refugees from Arakan have been pouring into Bangladesh in increasing numbers, with tales of killing, rape, forced labour and other atrocities committed by Burmese troops. Burma says the Moslems, known as Rohingyas, are illegal immigrants, but the regime's opponents believe it is trying to curry favour with the Buddhist majority and distract their attention from the country's domestic problems.

Mrs Khaleda Zia, the Bangladeshi prime minister, is due in the US this week for talks with President George Bush and with Mr Boutros Boutros Ghali, the UN secretary-general. The official Bangladeshi news agency said the refugee issue would figure prominently in her discussions. Bangladeshi officials said more than 4,000 refugees arrived from Burma on Saturday alone, bringing the estimated total to more than 200,000.

The ferocity of the latest Burmese offensives against ethnic minorities has begun to arouse anxiety about regional stability among even the most pragmatic members of the Association of South East Asian Nations, which accounts for many of Burma's contacts with the outside world.

Malaysia and Indonesia, with their large Moslem populations, have recently expressed concern about the plight of Burmese Moslems. Thailand, whose military officers have enjoyed lucrative logging concessions in Burma, finds itself engaged in border skirmishes with Burmese troops attempting to attack Karen rebels from behind by crossing the frontier.

Russian government faces growing threat from autonomous republics

By John Lloyd in Moscow

THE UNITY of the Russian Federation is increasingly being called into question, with the issue of independence for autonomous republics now seen to be as grave a threat to the government in Moscow as the economic crisis.

The extent of the problem was highlighted last Friday when two of Russia's 20 autonomous republics refused to initial a treaty aimed at establishing relationships between these republics and the federal government.

The two – Tatarstan and Chechen Ingushetia – are both relatively oil rich, and see their economic future as brighter with independence from Russia. Tatarstan holds a referendum on independence next Saturday, amid warnings from Russian politicians that a "yes" vote would spark off a dangerous constitutional struggle.

Mr Valdimir Lysenko, a member of the constitutional commission, said: "Tatarstan did not sign the treaty because I believe it plans to secede from the federation."

Of the other republics which initialled the treaty, a number – including Bashkiria, Yakutia, Komi and Karelia – have raised strong objections to the agreement, which is to be part of the Russian federation's new constitution. The agreement must also be ratified by the parliaments of these republics, in many cases now strongly independence-minded.

Critics of the government's policy – foremost among them, Mr Alexander Rutskoi, the vice-president, are calling for a crackdown on the republican authorities before the independence impetus becomes unstoppable.

Russian vice-president Alexander Rutskoi (right) and first deputy prime minister Yegor Gaidar, who clashed over economic reforms at a meeting in Moscow yesterday

The terms of the treaty allow for central control over most military, economic and foreign affairs issues. The autonomous republics will have control over mineral resources – an important concession, especially to a republic like Yakutia which has the largest diamond reserves in Russia.

The threat to Russian unity comes as nationalist and communist forces, now formally united, plan a huge rally tomorrow in the centre of Moscow to coincide with an attempt by former Soviet deputies to hold a session of the USSR Congress of People's Deputies.

Both the demonstration and the session are aimed at providing a focus and a sounding board for dissatisfaction over prices, national disintegration and fears of increased violence and tension between the former Soviet republics.

Mr Rutskoi, speaking at a conference yesterday in Moscow, warned that the break-up of the army brought a risk of civil war.

He again criticised the government's economic policy as "destructive", and called for a return to some centralised measures, especially to ensure the success of the spring sowing.

UK Labour party to offer tax cuts

By Ivo Dawnay, Political Correspondent, in London

THE UK Labour party will today try to "trump" the Conservative's budget by offering an alternative tax-cutting scheme under which personal tax allowances would more than double and the National Insurance contributions (NICs) structure would be altered.

Party officials said its tax and benefits plan, due to be announced today by Mr John Smith, the shadow chancellor, would make almost nine out of 10 families better off through changes aimed at the very poor and families in average incomes. They also hinted that the proposed new 50p top rate of income tax would affect only those earning more than £40,000 ($70,000) a year.

Yesterday, Mr John Major, the prime minister, used a BBC radio interview to accuse the Liberal Democrats and Labour of having a "a fetish" for tax rises with very damaging implications for individuals and business. His claim was firmly denied Mr Paddy Ashdown, the Liberal Democrat leader. While his party was ready to raise standard rate tax by 1p to pay for better education programmes, Mr Ashdown insisted: "We want taxes to be as low as they possibly can."

Mr Smith's scheme is intended to counter accusations by senior Conservatives that his pledge to scrap the new 20p tax band amounts to increased taxes for the low paid.

It would raise allowances by more than double the 4.5 per cent annual inflation rate, taking 750,000 people out of tax at a cost to the Treasury expected to be more than £800m. A central element in the scheme is the abolition of the first band of NICs which imposes a levy of 2 per cent on the first tranche of income of all those earning more than £52 a week.

Manley to resign as premier of Jamaica

By Canute James in Kingston

JAMAICA'S prime minister Michael Manley announced yesterday he would resign on March 28, ending a political dynasty that led the Caribbean island to independence in 1962.

Mr Manley, 67, will be stepping down two years before the end of his third term in office. He said he was resigning because of poor health after five major operations in eight years. The demands of leading the government had become too taxing, he added.

In a national broadcast, he said that on March 28 the ruling People's National Party would select a new president who would become prime minister.

His successor is likely to be either Mr Percival Patterson, the party chairman and a former deputy prime minister and finance minister, or Ms Portia Simpson, the labour and welfare minister.

Mr Manley, a social democrat whose first two terms as prime minister in the 1970s were marked by widespread state intervention in the economy, has more recently presided over extensive deregulation of the economy.

He said yesterday that the party had agreed that there would be no change in the government's move towards a market-driven economy, and that all his likely successors had agreed to this. "Continuity is assured and guaranteed," the prime minister said.

Mr Manley's father, Norman, founded the PNP in 1938 to represent trade unionists, and served as party leader until succeeded by his son in 1970. The elder Manley was a charismatic and populist figure who spearheaded the nation's independence from Britain in August 1962, seven years after becoming prime minister.

US politics and the Chicago float factor

Continued from Page 1

vote as in the days of the late mayor, Richard Daley. Of these, five ward leaders have come out for Mr Clinton and the current mayor, the old man's eponymous son, seems to lean towards him, though he reacted in horror last week when Mr Clinton suggested he might make a good vice-presidential candidate.

But, as the St Patrick's Day parade showed, most of the ward bosses are far more interested in local races, not just for Congress, where reapportionment has made for some bitter and less predictable contests, but also for the countless judgeships and tax assessment positions which count for so much in Chicago.

Which explains why Pat O'Connor has a big float and is a man to be reckoned with. Compared with him, Messrs Clinton, Tsongas, Brown, Bush and Buchanan are passing phenomena. And yet what happens here and in Michigan tomorrow will further help determine who goes against whom in the battle to run the country in November.

World Bank warning on Nigerian economy

Continued from Page 1

It also criticises several government-backed projects, including a controversial aluminium plant. In a barely veiled reference to corruption, the report highlights "a lack of transparency and accountability of major spending decisions and the exclusion of many items of capital expenditure from any rigorous project screening."

The report goes on: "Public expenditures are used more to distribute oil riches and generate lucrative business and employment opportunities for selected groups than to ensure efficient delivery of goods and services to the public at large." A recent example is the allocation of cars to army officers on nominal repayment terms.

The damage to the government's reputation as a result of the report may be partly offset by this month's decision to float the naira, accompanied by a renewed commitment to the 1986 reform programme. The devaluation answers the report's concern that the now abolished multi-tier exchange system was open to corruption.

Enter the ghost of crises past

By Anthony Harris

Mr Norman Lamont is quite a young man, but last week he delivered an old man's Budget. It revived old policies, being just a *little bit* Keynesian (in appearance at least), though not enough to frighten the children. It ran into an old constraint, the PSBR, and got an old-fashioned response in the stock market. And it was haunted throughout by the ghosts of old-fashioned crises – balance of payments crises and sterling crises – which were supposed officially to have been laid; first when we floated sterling and again, with a stake through the heart, when we joined the ERM.

You had not noticed these oddities? Then you are old-fashioned, too, and perhaps rightly so. If worries about government borrowing are not simply a long-ago conditioned reflex, then they are revealing; they show that nobody really believes that we have achieved the brave new European world, in spite of the unshakeable commitment expressed on all sides; otherwise these worries are not rational at all.

In one sense they are relatively new-fangled. There was a time when the PSBR was simply a memorandum item for the gilts market. The economically significant number is not the public sector borrowing requirement but the financial deficit – the PSFD. This largely forgotten set of initials shows how far the government is living within its means. It does not, that is to say, treat asset sales as a substitute for thrift. On that test, Mr Lamont is a good deal more improvident – or expansionary, if you believe that kind of arithmetic – than he has admitted, but still not improvident enough to revive the economy, let alone fears of inflation.

The PSBR, which simply forecasts government demands on the credit market, became important (if ever it was) during the tragi-comedy of British broad-definition monetarism. Any public borrowing which is not funded adds to the broad money supply; QED. However, the attempt to control the broad money supply was a fiasco and was formally abandoned some years ago. If we were worrying about it still, as the Liverpool letter-writers do, we would be concerned about the fact that it is growing far too slowly.

Here the PSBR is not a constraint but an opportunity; don't fund all the borrowing, and money growth improves. Indeed, Professor Tim Congdon argues that government spending which is fully funded has no effect on the economy at all – and we are still working on a full-funding rule in this country, as Mr Lamont reiterated. Funded borrowing should not, on the Congdon theory, affect markets either.

That is debatable, but what is beyond question is that a rise in borrowing which is simply the result of falling revenues cannot be a stimulus. It means no more than that the government's spending, unlike that of the private sector, is not trimmed to match short-term fluctuations in income. If the markets believed Mr Lamont's claim that the budget is in medium-term balance, they should shrug off this year's borrowing with barely a thought, except for their faulty economic models.

What about another old-fashioned idea – crowding out? The theory is that excessive

If you believe Britain is a committed member of the ERM, and committed to the present exchange rate, then the Budget is a financial non-event

government borrowing will force up the cost of private credit, and cramp the economy. This hardly makes sense in 1992. There is too little private credit demand, not too much. The collapse of commercial building alone is likely to cut borrowing by about as much as government borrowing is rising, as American Express has pointed out in an analysis. If we were still operating in a closed British market, government bonds would be the only good investment on offer in anything like an adequate quantity.

But of course we are not operating in a closed market, and have not been for well over a decade. In the context of the world market, the British requirement is entirely dwarfed by the really big borrowers, led by the US, and the unexpected change in the PSBR, a matter of £4bn at most, is not even noticeable.

So we come back to where we started. If you believe that Britain is a committed member of the ERM, and committed to the present exchange rate, then the Lamont Budget is a financial non-event, and all the ink spent on it nothing more than an attempt to fill the space reserved for what was expected to be a more interesting package. But what if you don't believe these things, even though everybody says that they are so?

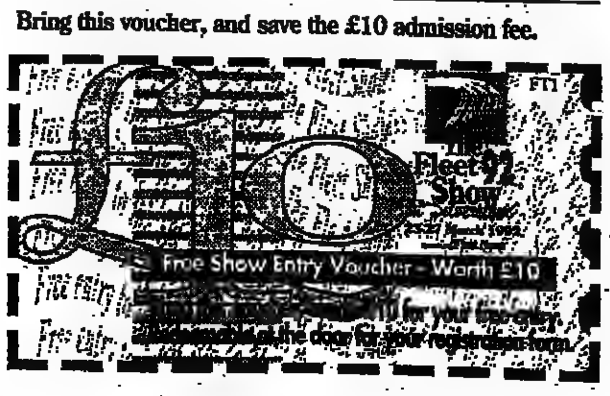
The man who gave voice to the unspoken worry which makes sense of the whole thing is Mr Christopher Lewinton, chairman and chief executive of TI, the engineering group. Just before Mr Lamont made his speech, Mr Lewinton called for a devaluation of sterling within the ERM. His aim, he said, was to enable the government to cut interest rates.

The experience of other ERM members who have devalued suggests this would not work; devaluation makes a currency more suspect, not less. Indeed, so far as the markets believe that Mr Lewinton is speaking for other, though more tactful, industrialists, his speech alone could help to keep rates high. But the effect will be marginal, because the suspicion has always been there.

It is in this context only that selling £3bn of new gilts (including refunding) every month for the next three years could be a problem. It is not insuperable; the US Treasury continues to borrow huge sums, the dollar has a dreadful record and none of the predicted crises have actually occurred. But don't expect British bond rates to come down much for a long time yet.

And when that time does come, you may well see the problem defined away. It's not just that we may have a Labour government, which believes in productive public sector investment, and would like to exclude it from the present definition of the public deficit. Such a move would have the sanction of the EMU rules, which allow for "excess" borrowing to finance investment.

And then perhaps we could exorcise the ghosts whose rattling chains have been unsettling the markets, and start to analyse the things which really matter. The present rules suited past monetarists, and they suited Mrs Thatcher, who wanted to ensure that only privatised utilities could plan their investment outside Treasury constraints. But they never did make much sense.



WORLDWIDE WEATHER

		°C	°F
Ajaccio	F	16	61
Algiers	S	18	64
Amsterdam	F	6	43
Athens	F	16	61
Bahrain		-	-
Bangkok	F	34	93
Barcelona	S	17	63
Beijing	S	9	48
Beirut	S	15	59
Belfast	C	7	45
Belgrade	C	13	55
Berlin	F	3	37
Biarritz	C	11	52
Bombay		-	-
Bordeaux	[illegible]	12	54
Boulogne	[illegible]	11	52
Brussels	R	4	39
Budapest	C	6	43
Buenos Aires	C	27	80
Cairo	F	18	64
Cape Town	S	36	97
Caracas	F	27	81
Casablanca	S	19	66
Chicago	F	[illegible]	[illegible]
Cologne	F	5	41
Copenhagen	C	1	34
Corfu	F	16	61
Dallas	S	10	50
Dublin	C	12	54
Dubrovnik		-	-
Edinburgh	S	4	39
Faro	S	21	70
Florence	F	15	59
Frankfurt	C	5	41
Geneva	R	10	50
Gibraltar	S	19	66
Glasgow	F	5	41
Helsinki	F	2	36
Hong Kong	C	23	73
Innsbruck	[illegible]	5	41
Inverness	F	3	37
Islamabad	F	22	72
Istanbul	F	11	52
Jakarta	R	31	88
Jersey	S	11	52
Johannesburg	C	26	79
Lima		-	-
Lisbon	S	18	64
London	R	11	52
Los Angeles	C	13	55
Luxembourg	R	5	41
Madeira	C	17	63
Madrid	S	17	63
Majorca	S	20	68
Malaga	S	19	66
Malta	[illegible]	14	57
Manchester	R	7	45
Manila	F	34	93
Melbourne	R	15	59
Mexico City	F	23	74
Miami	S	12	54
Milan	S	20	68
Montreal	S	-16	3
Moscow	C	2	36
Munich	R	4	39
Nairobi	F	27	81
Naples	S	17	63
Nassau	[illegible]	24	75
New Delhi	[illegible]	22	72
New York	S	-3	27
Nice	[illegible]	14	57
Nicosia	S	16	61
Oporto	S	19	66
Oslo	F	3	37
Paris	[illegible]	11	52
Prague	F	2	36
Reykjavik	Sn	-3	27
Rhodes	F	15	59
Rio de Janeiro	F	33	91
Rome	S	16	61
Salzburg	R	1	34
San Francisco	C	12	54
Seoul	C	13	55
Singapore	F	33	91
Stockholm	F	1	34
Strasbourg	R	8	46
Sydney	S	27	81
Taipei	F	29	84
Tangier	F	16	61
Tel Aviv	[illegible]	15	59
Tenerife	C	19	66
Tokyo	F	20	68
Toronto	S	-12	10
Tunis	C	17	63
Valencia	S	20	68
Venice	S	13	55
Vienna	S	7	45
Warsaw	C	1	34
Washington	S	-1	30
Zurich	R	7	45

Temperatures at midday yesterday C - Cloudy Dr - Drizzle F - Fair Fg - Fog H - Hail R - Rain S - Sunny Sl - Sleet Sn - Snow T - Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday March 16 1992

INSIDE

Bovis wins more gold on winning streak

Another gold medal for Bovis. The UK construction group confirmed on Friday it had been awarded the contract to manage the main building works for the 1996 Olympic Games in Atlanta, Georgia. The key order comes in the middle of a three-month run of success, during which it has picked up management contracts for some of the world's biggest and most prestigious building projects. Page 20

Tough times east of Eden

Allianz, Europe's largest insurance company, has invested DM2.8bn ($1.68bn) in the purchase and recapitalisation of the former east German state insurance monopoly, Deutsche Versicherungs – and it may not make a return on the investment until the next century. This may be a worthy example of German "long-termism" or it may indicate a misguided desire to be Number 1 at any price. David Waller reports. Page 21

Hindustan Lever up sharply

Hindustan Lever, India's biggest foreign-owned group, reported sharply higher profit and turnover for 1990-1991 in spite of the slowdown in economic growth during the year and political uncertainties. Page 21

Rockwell takes $1.5bn charge

Rockwell International, US aerospace and automotive group, is to take a $1.5bn charge against net income to cover the cost of moving to a new accounting standard for retired employees health benefits. Page 21

US bonds pass 8% barrier

The bear market in US government bonds passed a significant milestone last week when the yield on the 30-year Treasury issue rose through the psychologically-important 8 per cent barrier. Page 22

Lonrho faces shareholder criticism

By Roland Rudd in London

LONRHO, the international trading conglomerate, is facing calls from some of its biggest shareholders for changes in its corporate governance as a consultancy published a report containing criticisms of the group.

Pensions Investment Research Consultants (PIRC), an adviser to the pension funds with investments in Lonrho, has called for the appointment of four "high-calibre" non-executives; a change to the company's memorandum and articles to provide for the election of all directors; and the creation of an independent pay committee.

Some of Lonrho's institutional shareholders expressed support for PIRC's proposals.

Ms Ann Simpson, PIRC's joint managing director, said: "All the major issues affecting the share price have been removed from the process of accountability. Some of the group's biggest shareholders have told us of their dismay at the group's inability to respond."

On Friday, Lonrho's share price fell to a six-year low of 86p after a spate of bad news.

Lonrho does not believe PIRC to be representative of its shareholders, which include a high proportion of small shareholders. PIRC is recommending that Lonrho's shareholders set a deadline for the company to comply with guidelines set by the Institutional Shareholders Committee arguing for the appointment of independent non-executive directors to its board.

Failing this, PIRC says shareholders should put forward their own candidates for election.

It also recommends that shareholders question management about the group's articles of association which exclude Mr Tiny Rowland, chief executive, aged 74, from the need to seek re-election. Postel Investment Management, an institutional shareholder, has been arguing that all directors over 70 should be up for re-election every year.

In light of Mr Rowland's salary increase from £1.53m to £1.6m ($2.7m) against a fall in Lonrho's pre-tax profits, PIRC calls for the creation of an independent pay [illegible].

G30 to review use of derivatives

By Tracy Corrigan in London

THE GROUP of Thirty, the Washington-based think tank, plans to launch a review of the risks to the world's financial markets from the growing use of derivative instruments such as futures, options and swaps.

This would mark the first comprehensive study of the risks which have built up in the financial system following the explosive growth of all types of derivatives since the early 1980s. Regulators around the world have been working towards ways of measuring and limiting such risks, though no comprehensive solutions have yet emerged.

Derivatives are financial products whose value is based on underlying assets such as bonds, currencies or stocks. They exaggerate price movements in the underlying assets, and so potentially pose greater risks to financial institutions.

A G30 review would carry influence with bank supervisors, some of whom have expressed concern over the increasing use of products such as swaps and options. The full risks of these instruments are not shown on banks' balance sheets.

A chairman has yet to be appointed by the G30, but the review is likely to get under way during the summer. The review will attempt to define and measure the various types of risks involved in the use of derivative products – including market risk, credit risk and settlement risk – and will also examine how that risk can best be managed.

The review will not only examine the role of banks but also of other participants such as brokerages and insurance companies. It could make or break bankers' hopes of winning a favourable interpretation of the Basle guidelines on the capital adequacy of banks which come into force in January 1993.

For example, bankers have been pressing for rules which would allow them to net off their exposures in the $3,000bn (£1,751bn) swaps market, effectively reducing the amount of capital they need to hold to protect against loss.

"Because the Basle accord requires banks to calculate their... exposure on a gross basis, it places banks at a competitive disadvantage" and could threaten the future of off-balance sheet business, according to Mr Mark Brickell, chairman of the International Swap Dealers Association, who expressed that backing for the G30 project at the association's annual meeting in Paris on Friday.

Haig Simonian reports on San Paolo's flotation today and its plans for tomorrow

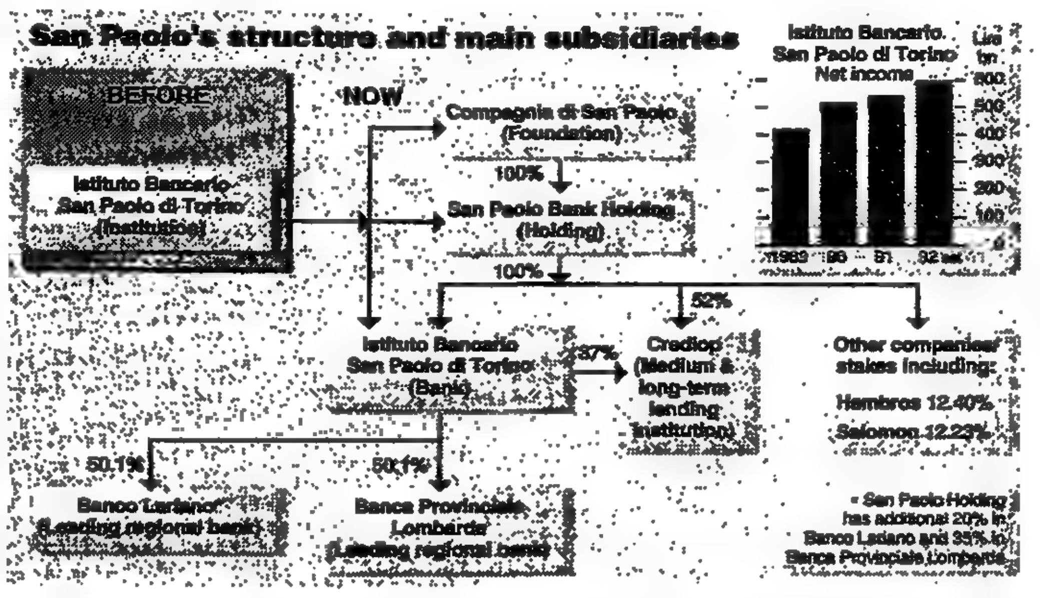
Hard-headed Italian bank sets the pace

With around L250,000bn ($200bn) in total group assets, 800 domestic branches and a significant presence abroad, San Paolo bank does not fit the description of a typical Italian public sector bank. It is far from undersized and not over-dependent on its home market.

After today's L1,525bn flotation of 20 per cent of its shares, San Paolo will stand out even more from the pack. One of Italy's more dynamic and better-run financial institutions, its decision to go public marks a high point for the bank and the biggest leap so far in Italy's 18-month-old bank liberalisation process.

Under the 1990 Amato law, public sector banks received the green light to become joint stock companies and float up to 49 per cent of their shares. San Paolo is only the second Italian bank to take advantage of the change, but the flotation dwarfs the L400bn raised by Banco di Napoli last November. Today's issue will be Italy's biggest initial public share offering, and the second-largest capital raising on the bourse after last year's L1,750bn rights issue by the Generali insurance group.

Some analysts have complained that the L12,200 price tag on San Paolo's new shares is dear compared with other quoted Italian banks. The issue price puts San Paolo's price-earnings ratio at around 11 – above those of Credito Italiano and Banca Commerciale Italiana (BCI), two big, well-regarded public sector banks



which are already partly quoted. Mr Gianni Zandano, San Paolo chairman, disagrees. "We think the pricing is competitive," he says.

Many bankers suggest the best comparison for San Paolo is not with a top public sector bank, but with Banco Ambrosiano Veneto (Ambroveneto), Italy's biggest private sector financial institution, which trades on a p/e of around 13. Ambroveneto is also a model of independence from politicians. To emphasise its autonomy, San Paolo will shortly announce the appointment of three leading private sector businessmen, including Mr Arturo Ferruzzi, head of the Ferruzzi-Montedison group, to the board of its banking operation.

Freedom from political influences should allow the bank to continue its hard-headed business practices, which have seen net earnings, restated for the revaluations involved in the restructuring process, reach L540bn last year. Profits should rise by around 10 per cent in 1992, and the bank has already indicated it will pay a dividend of at least L400 a share for 1991 – its first year as a joint stock company.

Earnings will also gain from tougher cost control. Mr Zandano says the 21 per cent surge in staff costs last year on account of a new three-year wage contract and a sharp increase in pension fund payments was an exception.

A string of foreign and domestic acquisitions over the past two years has prepared San Paolo better than Italy's other big banks for the freer competition in European banking in the 1990s. It now has the biggest network of any foreign bank in France, with 45 branches, and operates almost 135 branches in Spain through stakes in two domestic banks.

The group has also taken smaller holdings in other foreign banks. San Paolo is the biggest shareholder in Hambros, the UK merchant bank, with just over 14 per cent. It also has much smaller stakes in Salomon in the US and the Suez group in France.

But San Paolo's biggest expansion has come at home. Last September, it paid L2,100bn for 50 per cent of Crediop, the big Rome-based medium and long-term lending institution, taking its stake to 90 per cent.

Crediop completed San Paolo's structure as a full-service bank. Commercial banks are forbidden under Italian law from making medium to long-term loans to industry, which is reserved for specialist institutions. "Buying Crediop means nothing important is now missing for the group," says Mr Zandano.

San Paolo is now entering a consolidation phase, says Mr Zandano. Though takeover opportunities will not be overlooked, the stress is now on organic growth. Tying Crediop more closely with the San Paolo group will allow it to extend its activities beyond traditional big corporate clients to medium and smaller-sized companies.

The group will also continue to build up its branch network to strengthen its deposit base. The slowdown in Italy's traditionally high private savings rate at a time of high lending has forced San Paolo to turn increasingly to relatively expensive interbank finance to bridge the funding gap, affecting earnings in 1991. This year, it has decided to limit lending to the rate of deposit growth. "It's a complete policy shift. Now our most important variable will be deposits," says Mr Zandano.

The rest of the bank's cash from the flotation will go towards rebuilding liquidity, depleted after the Crediop purchase. Large cash balances should also boost this year's profits given the huge spread the bank can make between the 4 per cent its new equity will cost in terms of dividends and the 12 per cent or more to be made on the money markets.

San Paolo's cash balances will balloon further once it floats part of its Crediop stake, probably next year, leaving it with a bare majority of the shares. "It's not our business to keep money tied up which could be used better elsewhere," says Mr Zandano.

Gianni Zandano

Arturo Ferruzzi

Retail prices index comes under fresh bout of scrutiny

Economics Notebook

By Peter Norman

ONCE AGAIN Britain's retail prices index is coming under official scrutiny.

In a press release, which was quickly lost from sight in the aftermath of the Budget and the excitement surrounding the fixing of the election date, the Central Statistical Office last week announced the membership of its retail prices index advisory committee.

Nineteen economists and experts, including the FT's chief economic commentator Mr Samuel Brittan, will advise Mr William McLennan, the CSO's recently appointed head, about the implications for the RPI of the abolition of the poll tax and its replacement by the council tax.

Also on the agenda will be the inclusion of holiday spending in the index and the way the RPI tracks the prices of new cars.

The decision to reconvene the committee was announced by Mr Norman Lamont, the chancellor, last month. But it is unlikely that it will meet before the election. It could then find its brief radically altered in the event of a Labour victory which could lead to the scrapping of the council tax.

However, there are some who would argue that the RPI needs more careful scrutiny than that envisaged by the committee's terms of reference. Two market researchers, Mr Pym Cornish and Mr Mike Waterson, have published a paper which maintains that the index, as presently constituted, overstates UK inflation in conditions of recession. They add that it probably understated inflation in the economic boom of the late 1980s.

The RPI is a vitally important indicator. With reason, Mr Nigel Lawson said in the 1980s that inflation was the "judge and jury" of British government policy. The economic pain involved in reducing the annual rate of retail price inflation from its recent peak of 10.9 per cent in October 1990 will dominate the election campaign.

The index has an impact on many aspects of everyday life. It acts as a base level for wage negotiators; influences the pricing decisions of companies; determines how state retirement pensions and certain social security benefits are upgraded, and directly affects savers of index-linked National Saving certificates and indexed gilt-edged government securities.

The assertion of Mr Cornish and Mr Waterson that the current true rate of retail price inflation could be as little as 1 per cent compared with January's 4.1 per cent official inflation rate is, therefore, disturbing.

The two argue that the RPI substantially overstates the true average levels of many prices paid because the prices making up the index are those on a list of goods, that is revised annually and taken from a fixed panel of outlets.

Unlike ordinary shoppers, the officials who gather prices for the index cannot shop around for the best bargains. Because they are not actually buying goods, they cannot haggle for discounts on big ticket items.

The index does not capture special offers of the type common in supermarkets, where big savings can be obtained by purchasing more than one example of a specific item.

Moreover, the RPI cannot take any account of vouchers issued by manufacturers to encourage the purchase of specific products. It can only take account of increases in the size of a product for a given price when these are lasting.

There are some serious implications for the government in this. For example, recent assessments of high street activity may appear excessively gloomy because trends in retail sales volumes are calculated by deflating the value of total sales by selected components of the RPI.

However, it has to be said that the writers' assessment of the over-recording of current inflation is no more than an estimate. The two authors have backgrounds in market research rather than economics and statistics.

Mr Waterson also makes clear that he believes there could be business opportunities for market researchers in developing an alternative to the RPI based on transacted prices.

On the other hand, the RPI probably deserves more examination than that planned for the CSO's advisory committee, if only because some government officials have also expressed doubts over whether the index is accurately reflecting the real state of inflation.

German outlook

The retail prices index used to be a key factor determining British interest rates. But since Britain became a member of the European exchange rate mechanism in October 1990, German inflation has been more important.

This point was acknowledged by Mr Lamont in his Budget speech when he said he expected to see reductions in European interest rates "as the underlying level of German inflation abates".

But what is the outlook for German inflation? According to one leading German bank economist, price developments in Germany will be "on a roller coaster" in the coming months, reflecting tax changes.

Mr Martin Hüfner, chief economist of Bayerische Vereinsbank in Munich, told a meeting in London last week that inflation was likely to rise to about 4.5 per cent in April and May then fall to 3.5 per cent in July before increasing again at the end of the year as a planned increase in value added tax translates into a 0.5 percentage point rise in consumer prices.

These trends would not justify any further increase in German interest rates. But cuts would be unlikely before mid-year and the subsequent downward trend would "probably be very slow".

Looking further ahead, Mr Hüfner's analysis contained both good and bad news for the UK. The current slowdown in the German economy would be temporary and the 1990s would be a period with strong growth of about 4 per cent a year as supply side improvements boosted the German economy and it benefited from German and European unification. That would be good for UK exporters.

On the other hand, high fiscal deficits meant that Germany's discount rate was unlikely to fall below a range of 4 per cent to 5 per cent compared with 3 per cent or less in earlier cycles.

As Germany's discount rate is currently 8 per cent, that could suggest a future floor of around 7 per cent for UK base rates in conditions of rough price stability.

The UK Retail Prices Index. A Suitable Case for Treatment, by J.W.P. Cornish and M.J. Waterson, NTC Research, Farm Road, Henley-on-Thames, Oxfordshire, RG9 1EJ.

Pensions group in row with banks

By Philip Coggan and Norma Cohen in London

UK CLEARING banks have clashed with the National Association of Pension Funds because of views the latter put forward on the need to protect pensioners in the wake of the Maxwell affair.

The recommendations were contained in testimony to the parliamentary select committee on social security which has been considering reforms of the pension laws for the past three months.

The NAPF, a trade organisation of pension fund managers, urged that companies which manage their own pension funds be required to appoint an independent custodian for safekeeping of assets.

Lloyds Bank said it was unhappy about the representations made by the NAPF to the committee, and felt that the views of all the members had not been canvassed properly. The Lloyds group pension fund is the biggest single customer of Lloyds Investment Management, and the bank acts as custodian of the pension fund.

Lloyds said it would "carefully consider" its membership of the NAPF when it came up for renewal. Other clearing banks have also expressed concern about the NAPF's views on the issue.

In the case of the Maxwell companies, Mr Maxwell was apparently able to gain access to pension fund assets because a company he controlled had physical possession of them. Since the Maxwell case arose, the fund management industry has been anxious to ward off calls for custodians of assets to be independent of those who decide where to invest the funds.

Bidder attacks target's policy of selling core businesses

Petrocon declares final its offer for James Wilkes

By Steve Thompson

PETROCON, the engineering and surveying group, yesterday declared final its bid for James Wilkes, the Sheffield-based engineering company, and launched a scathing attack on the Wilkes defence.

The attack came in Petrocon's offer document which shareholders should receive shortly.

Petrocon's bid, a straight share exchange of 13 Petrocon shares for every three Wilkes shares, was launched on February 3 and at last Friday's closing prices, valued Wilkes at about £28m. The offer closes on March 30.

Petrocon said it had the support of 35.4 per cent of Wilkes shares, comprising acceptances of 13 per cent, a commitment to accept the bid from holders of a further 17.6 per cent, and a further 4.8 per cent owned by Petrocon and its associates.

The offer document concentrates on Petrocon's cash resources and net assets, which it claims will support Wilkes' "overgeared and hard pressed balance sheet," and Petrocon's strong management team and specifically attacks Wilkes' policy of selling its core businesses.

It also points out that links remain between Mr Arthur Watt, the new chairman of Wilkes, and Mr Stephen Hinchcliffe, the former chairman who resigned after the Petrocon bid.

The document also hits out at Mr Watt's record as a director and latterly as managing director at Aurora, the engineering group, for five years until 1983.

Petrocon said Mr Watt left Aurora in 1983 prior to a financial reconstruction of the company: "Wilkes' shareholders should not let Aurora's fate befall their company," said Petrocon.

Petrocon rejected Wilkes' criticism of its management team, pointing to its successes in revitalising and improving performances at other engineering businesses, including successful research and development projects at Cape Industries and Floform.

It also highlighted the management team's performance at Central & Sheerwood where operating losses of £1.4m in 1986 were transformed into operating profits of £787,000 in 1988.

Wilkes' strategy of selling many of its non-core businesses is described by Petrocon as "an admission of failure," and Petrocon also points out that Mr Watt shares common directorships with Mr Hinchcliffe, Wilkes' former chairman.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Homestake Mining (US)	International Corona (Canada)	Mining	£234m	Creating major gold producer
ICI (UK)/Teijin (Japan)	Joint Venture	Chemicals	£50m	Anti-CFC Joint Venture
Arrow (US)	Unit of Lex Service (UK)	Electronics distribution	£40m	Arrow hits target
Credit Lyonnais (France)	Banca Agricola Milanese (Italy)	Banking	£37m	Small stake, motive unclear
Scitex (Israel)	Leaf Systems (US)	Publishing services	£20m +	Performance-related price
Johnson Matthey (UK)	Svenska Emissions-teknik (Sweden)	Auto components	£2.2m	Controlling interest
Cromar Trading (US)	QED Technology (UK)	Computer services	n/a	More Maxwell fall-out
Philips (Holland)/ Motorola (US)	Joint Venture	Semiconductors	n/a	Philips shows commitment
Philips (Holland)	Super Club (Belgium)	Video rental	n/a	Minority buy-out offer
Magnetek (US)	May & Christie (Germany)	Electrical equipment	n/a	Key in European strategy

Source: FT Mergers – Acquisitions International

Reaping the benefits of an international strategy

Andrew Taylor on how Bovis is escaping the ravages of the UK construction recession

BOVIS, the UK construction group, appears to be on a winning streak. On Friday, it was confirmed that the company had been awarded the contract to manage the main building works, worth between $700m and $1bn (£408.7m – £583.9m), for the 1996 Olympic Games in Atlanta, Georgia.

The order would be a coup for any international construction company. For Bovis it comes in the middle of a remarkable three-month run of success, during which it has picked up management contracts for some of the world's biggest and most prestigious building projects.

Since the beginning of December, Bovis, a subsidiary of Peninsula and Oriental Steam Navigation (P&O), the British property and transport group, has been awarded contracts to manage construction work worth more than $3.5bn.

The contracts, won against stiff competition, particularly from the US, have been spread as far apart as continental Europe, the Far East and the US. They include:

- a $700m second phase of the Euro Disney theme park in Paris;
- the first phase of a big city centre office and redevelopment worth between $800m and $1bn in Kuala Lumpur, Malaysia;
- $700m of maintenance facilities for United Airlines at various US airports; and
- a $400m development for Kommerz Bank in Frankfurt.

Other contracts include a $100m Court of Appeal building in San Francisco; a $150m hotel in Los Angeles; a $100m redevelopment of Navy Pier in Chicago; and refitting the London headquarters for the European Bank for Development and Reconstruction, expected to cost $90m.

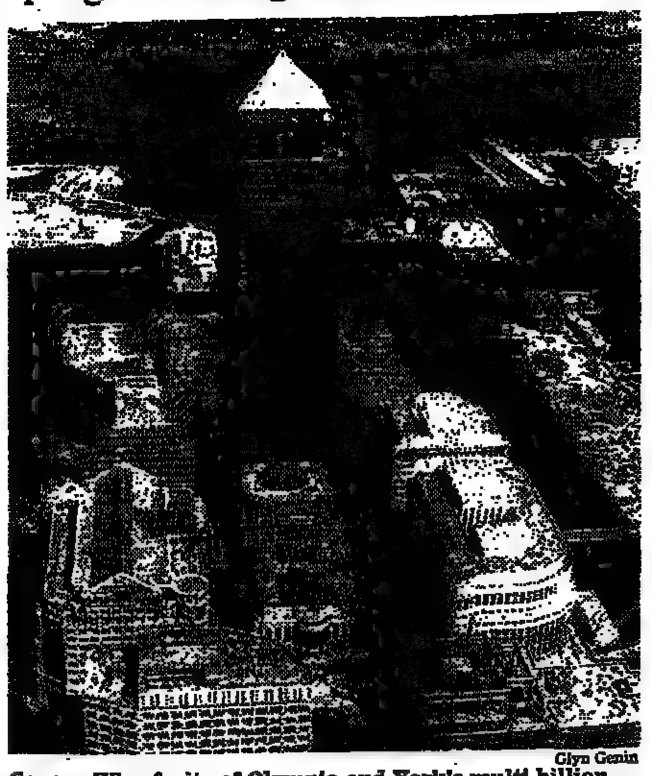
The awards reflect the success of the company's policy, established in the mid-1980s, of building a worldwide construction business to reduce its dependence on a home market which has suffered as a result of overbuilding in the late 1980s and the decline in the UK economy.

By the end of last year, Bovis held contracts to manage projects worth £3.7bn – 8 per cent more than at the end of 1990 and in spite of one of the worst recessions for UK construction for half a century.

According to Bovis, the combined value of its UK contracts last year fell by 41 per cent from £1.7bn to £1bn. The value of US work, however, increased by three-quarters from £800m to £1.4bn, while the value of continental European and Far Eastern projects rose by 44 per cent to £1.3bn.

Sir Frank Lampl, Bovis's Czechoslovakian-born chairman, says: "We decided in 1985 that the rise in UK construction output could not last and that we needed to find new markets. At that point more than 90 per cent of Bovis's turnover was generated in the UK."

The company does not carry out construction itself, but manages projects for a fee, subcontracting the work to others. Its domestic success had been based on establishing long-term relationships with UK customers, similar to the "partnerships" between Japanese contractors and clients.



Glyn Genin

Canary Wharf, site of Olympia and York's multi-billion pound office scheme

Bovis, between 1927 and the mid-1980s, managed the construction of almost all of Marks and Spencer's stores. It still carries out more than 80 per cent of developments for the group. Bovis also has close relationships with Stanhope, the UK property developer, and with Safeway, the British retailer, for which it has built more than 200 stores.

Sir Frank, who left Czechoslovakia in 1968, just before the Soviet invasion, says: "We have tried to offer similar continuity and quality of service to international customers which regularly build overseas."

The breakthrough came with the purchase in 1986 of a 50 per cent stake in Lehrer McGovern, the New York-based construction management group, which was purchased outright by the British company in 1988.

Bovis, through Lehrer McGovern, was able to offer US-style construction management, just as North American developers were seeking to invest in Europe.

It is a mark of Bovis's success that it has won repeat orders for both Euro Disney (where it managed phase one of the project) and for Canary Wharf, where it is managing the construction of a multi-billion-pound office scheme being developed by Olympia & York.

In 1990, Bovis – previously based in the north-east and west coast of the US – acquired McDevitt & Street, a large US construction group working primarily in south-eastern states. This year, it bought Schal Associates, a Chicago-based construction management company covering the mid-west.

McDevitt & Street and Lehrer McGovern will mastermind the construction of sports facilities, accommodation, transport and communications for the 1996 Olympic Games.

Bovis, which seven years ago only had overseas subsidiaries in Portugal and San Francisco, now has subsidiaries in Spain, Germany, France, Czechoslovakia, Portugal, Malaysia, Thailand, Indonesia, Australia, Japan, Taiwan and the US.

Specialist Computer lifts stake in NMW to 24.2%

Specialist Computer Holdings (SCH), a privately-held computer dealership and distributor, confirmed that it had increased to 24.2 per cent its stake in NMW Computers, the leading processor of stock exchange transactions, writes Alan Cane.

Mr Peter Rigby, SCH chairman, said that he had been interested in NMW for some time, but had no immediate intention of launching a full bid for the company.

He believed, however, that the pattern of NMW's shareholding – with many small investors – had prevented the company maximising its potential.

He thought it likely SCH would be seeking representation on NMW's board.

Irish SE insider probe at Greencore

By Tim Coone in Dublin

THE IRISH Stock Exchange has taken the unusual step of revealing that it had carried out an insider trading investigation into the recent sale of part of the Irish government's holding in Greencore, the sugar and foods group.

It said "the Exchange has found nothing that would lead it to believe there were instances of insider dealing involved. The Exchange points out that its normal policy is to neither confirm or deny that it conducts insider dealing investigations in particular cases. However, it feels that in this case the level of public concern involved justified making an exception".

Last month the government sold a third of its 45 per cent stake in Greencore to an institutional fund manager. This breached an undertaking made at the time of its flotation in April 1991, that the government would not dispose of any further shares in the company for at least two years.

The move angered institutional investors, who were not offered the 12m shares on a pro-rata basis, and shook confidence in the government's commitment to the company.

COMPANIES AND FINANCE

Allianz banks on a short-term loser

Chief executive Uwe Haasen talks to David Waller about a return to east Germany

Since the second half of 1990, Allianz, Europe's largest insurance company, has spent hundreds of millions of D-Marks on the former east German state insurance monopoly, Deutsche Versicherungs (DVAG).

Munich-based Allianz acquired DVAG in two stages from the Treuhand privatisation agency, and though the second stage still awaits finance ministry approval, it has de facto management control.

Allianz laid out DM711m ($433.5m) to buy the business which, it now forecasts, will lose more than DM1.5bn before starting to make operating profits at the beginning of 1996.

Not included in the purchase price is a further DM600m already deployed on capital investment. Together with the projected losses, this makes a total cost of more than DM2.8bn, which represents nearly three times Allianz's consolidated earnings for 1990. And the cost will probably grow even bigger as Allianz moves to build up DVAG's financial reserves.

Perhaps Allianz will never make a return on its investment if the "time value" of money is taken into account. If it does, it is unlikely to be until early next century.

Is this willingness, then, to take on such losses, over so many years, an example of the legendary German "long-termism"? Or is the deal simply misguided, driven by Allianz's desire at any price to be number one in the east of Germany as well as in the west?

Mr Uwe Haasen, chief executive of the group's main domestic insurance subsidiary, argues that the losses and the investments have to be seen as part of the purchase price for a business which will give Allianz a strong position in the fast-growing market for insurance in the east.

For Mr Haasen, short-term pay-back criteria are secondary to the long-term strategic benefit of getting back into a market which Allianz, and other western insurers, were forced to quit after the second world war. He also maintains that however expensive the acquisition may look now, it will cost rival insurance companies considerably more to establish themselves in eastern Germany at a later stage in its economic recovery.

> **"We decided the best way was to occupy the infrastructure of the old monopoly; to get the offices, the telephones, all the important little things"**

Before reunification, east Germans spent an average of $127 per head a year on insurance – about a 10th of the amount spent by their west German counterparts. Allianz, and the more than 300 other insurance companies which have sought to establish themselves in the east since the state monopoly there was broken up in July 1990, believe that east German spending on insurance will eventually catch up with that in the west.

The Allianz view is that this will take place over the next five to eight years, by which time the east German market will have come to represent about a quarter of the German total.

"We were there in the past – up until the [second world] war our headquarters were in Berlin and the main part of our business used to be in the east," recalls Mr Haasen. "And it is very important for us to reoccupy this market segment.

"In 1990 [when Allianz bought its first 51 per cent stake in DVAG] we decided that the best way to do this was to occupy the infrastructure of the old monopoly – to get the offices, the telephones, all these little but important things."

"The priority is to get the same market share in the east as in the west – maybe a little more – and to become established as a settled and well-known insurer, to make sure that the structure for doing business is in place. These operational reasons are more important for the time being than short-term earnings."

However, Mr Haasen's "for the time being" means at least four years from now: four years before the acquisition begins to make even operating profits.

Meanwhile, market share objectives have already been achieved. For example in the motor sector, Allianz's share in the east is more than 20 per cent compared with 15 to 16 per cent in the west.

Mr Haasen rejects the suggestion that Allianz is having to wait too long for a return. "Other insurance companies interested in the east will have to go the same way eventually. Insurance is a local business – you have to be in the east if you want to do business there. You have to build up a salesforce and administration, and that means that [our rivals] will have to pay the same amount of money. In fact, I feel that it is cheaper to invest now, rather than in three or four years' time when prices will have gone up."

Although profits are not the priority, Allianz is taking steps to cut costs. It has long-term plans to bring the number of offices in the east down from more than 200 to between 10 and 20.

This year it plans to shed 1,400 employees, approximately 10 per cent of DVAG's workforce, and staff numbers will be whittled down further over the years to come. Although Mr Haasen refuses to be drawn on precise numbers, he does say that the DM2bn of business handled by the 14,000 DVAG staff would need only 5,000 to 7,000 people in the west.

> **"Insurance is a local business – you have to be in the east if you want to do business there. You have to build up a salesforce, administration"**

He says DVAG productivity will never rise to western levels. Business in the east involves small sums of money and is thus more work-intensive. Therefore, in the long term, staff cuts will exceed the 10 per cent announced already.

While costs in the east are higher than in the west, the premiums Allianz charges on its eastern policies are lower – considerably lower in some cases. Motor rates, the most important non-life sector, stand at about 80 per cent of what they are in the west, despite claims experience which is worse – and is likely to get worse still as east Germans drive their newly-acquired western cars around the east's inadequate roads.

Property premiums are only 10 per cent of rates in the west, household insurance rates only a third. Allianz cannot simply adjust rates to economic levels; Mr Haasen reckons that if motor rates were doubled, half the existing clients would cancel their policies.

Summing up, Mr Haasen says there is a misunderstanding among analysts about the costs of tidying up DVAG – that they tend to assume that DVAG was just a badly-run company which could be rationalised through the application of textbook management procedures.

He points out that the required restructuring is much more fundamental than that. "You've got to transfer the company from the old monopoly structure to our type of economy – and pay for the transition period and all the expenses of getting people used to our systems, to the market, to competition, to the western legal system."

It is possible that Allianz is exaggerating its woes in the east – flaunting the very scale of its commitment to the east – to ensure that the finance ministry does grant approval for the second part of the transaction.

However analysts consider that, by normal short to medium-term financial criteria, the deal does not make sense. Mr Peter Constable at Robert Fleming Securities in London, for example, is recommending that investors take advantage of the recent rise in the German stock market to sell shares in Allianz before the full impact of the eastern operations feeds through to the bottom line.

Most of the shares in Allianz, however, are held by a small number of German financial institutions – for example Dresdner Bank, Deutsche Bank and Munich Re – whose investment horizons are every bit as long-term as those of the Allianz itself.

Chrysler leadership race intensifies

By Martin Dickson in New York

THE board of Chrysler, the US automotive manufacturer, held an unusual special meeting in New York at the weekend amid speculation that it would consider naming Mr Robert Eaton, president of General Motors in Europe, as successor to Mr Lee Iacocca, its chairman.

Mr Iacocca, who is 67, is due to retire at the end of this year. The Chrysler board has been weighing up for months whether to appoint a successor from within the company or on from outside.

Mr Eaton acknowledged in an interview with the New York Times that he had held discussions with Mr Iacocca about joining Chrysler, though he did not specify in what capacity.

Aged 52, he has played a key role in making GM Europe the company's most profitable automotive business, helping to offset heavy losses in the US market.

Mr Eaton was rumoured to have flown to New York to meet the Chrysler board late on Saturday to discuss a succession plan, although a spokesman for the company declined all comment on the board's deliberations.

The appointment of Mr Eaton would be a severe blow to Mr Robert Lutz, president of Chrysler, who has made clear that he wants to succeed Mr Iacocca.

Mr Lutz, who has a strong design and engineering background, has played a crucial role in revamping Chrysler's tired model line with a range of exciting new vehicles due to reach the US market over the next two years.

Several large Chrysler shareholders have made clear they back his candidacy.

However, Mr Lutz has less knowledge of the financial side of the business and has clashed with Mr Iacocca on numerous occasions. If he does not get the chairmanship, Chrysler might have trouble keeping him.

Another possible contender is 56-year-old Mr Gerald Greenwald, Mr Iacocca's former heir apparent, who left the company in 1990 to join an ill-fated airline management buy-out and now works for a New York investment bank.

Mr Iacocca has been chairman of Chrysler ever since the late 1970s, when he engineered a government rescue which pulled the company back from the brink of bankruptcy.

Robert Eaton

Rockwell to take $1.5bn charge

By Martin Dickson

ROCKWELL International, the US aerospace and automotive group, is to take a $1.5bn charge against net income to cover the cost of moving to a new accounting standard for retired employees' health benefits. All US companies have to adopt the new accounting method by early next year.

Rockwell said it would take the charge in the second quarter, ending March 31, and would restate its first-quarter figures. The restatement would mean a net loss for the first quarter, and for the full 1992 fiscal year.

Mr Donald Beall, chairman, said the group did not see any significant improvement yet in its markets. It expected earnings per share in fiscal 1992 to be about 15 per cent below 1991's total of $3.57, before the special charge.

Mr Beall had previously restricted himself to saying that because an economic turnround had not materialised, it would be increasingly difficult to match 1991's figures. The company earned $600.5m in the year to September 1991, on sales of $11.93bn, and $123m on sales of $2.56bn in the first quarter of the current year.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.			
	Provisional Price for Trading on [illegible]	Final Prices for Trading on [illegible]	
1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.86	17.08	17.08
0100	17.89	17.10	18.49
0130	20.44	20.86	22.39
0200	20.44	20.86	22.37
0230	17.81	17.12	18.51
0300	17.60	17.10	18.49
0330	16.74	17.08	18.47
0400	16.70	17.06	18.44
0430	16.67	17.04	17.04
0500	16.64	17.03	17.03
0530	16.69	17.03	17.03
0600	16.65	17.02	17.02
0630	16.65	17.02	17.02
0700	16.65	17.02	17.02
0730	16.65	17.02	17.02
0800	16.65	17.02	17.02
0830	16.68	17.01	17.01
0900	16.72	17.03	17.03
0930	16.75	17.04	17.04
1000	17.19	17.05	18.44
1030	18.21	17.08	18.47
1100	18.43	17.48	18.80
1130	20.88	17.54	18.95
1200	22.27	17.89	19.41
1230	22.27	19.38	20.88
1300	22.27	19.38	20.85
1330	20.68	18.35	19.78
1400	18.43	17.42	18.82
1430	17.57	17.05	18.44
1500	17.19	17.06	18.44
1530	16.75	17.04	17.04
1600	16.74	17.04	17.04
1630	16.74	17.04	17.04
1700	17.19	17.08	17.08
1730	17.18	17.99	19.41
1800	19.34	19.61	21.08
1830	18.43	31.80	33.86
1900	21.83	31.80	33.86
1930	21.83	31.80	33.60
2000	21.83	18.44	19.88
2030	19.89	17.49	18.89
2100	19.89	17.49	18.89
2130	19.89	17.49	18.89
2200	19.84	17.49	18.89
2230	16.87	17.04	17.04
2300	16.87	17.04	17.04
2330	16.73	17.04	17.04
2400	16.72	17.04	17.04

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The provisional Pool Purchase Price is subject to revision or correction until final pool prices are determined approximately twenty-four days after the day of trading. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Final pool prices are also capable of revision.

NGC Settlements Limited

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.			
	Provisional Price for Trading on [illegible]	Final Prices for Trading on [illegible]	
1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh
0030	16.77	17.08	17.08
0100	17.67	17.99	19.16
0130	20.44	18.44	19.83
0200	20.44	18.44	19.82
0230	19.16	17.56	18.72
0300	16.81	17.49	18.65
0330	16.75	17.49	18.65
0400	16.74	17.49	18.65
0430	16.74	17.05	17.05
0500	16.72	17.05	17.05
0530	16.75	17.03	17.03
0600	16.75	17.05	17.05
0630	16.86	17.09	17.09
0700	18.02	17.60	18.77
0730	18.17	17.92	19.19
0800	18.16	17.92	19.10
0830	22.45	18.22	19.41
0900	22.54	19.16	20.40
0930	22.55	21.08	22.39
1000	22.56	21.14	22.46
1030	22.54	21.17	22.50
1100	22.64	21.24	22.59
1130	22.46	24.26	25.77
1200	22.46	24.43	25.95
1230	22.46	24.39	25.90
1300	22.45	24.19	25.69
1330	19.08	21.10	22.39
1400	18.84	20.25	21.50
1430	18.56	19.51	20.63
1500	17.06	19.31	20.52
1530	16.15	19.13	20.34
1600	18.20	19.30	20.52
1630	18.08	17.65	17.65
1700	20.91	19.31	20.58
1730	22.13	22.60	24.35
1800	22.13	28.43	30.65
1830	24.03	28.80	31.06
1900	24.03	27.20	29.11
1930	24.03	22.52	23.94
2000	22.13	20.76	22.04
2030	19.08	18.95	20.14
2100	18.30	18.22	19.39
2130	18.20	17.40	17.40
2200	16.94	17.09	17.09
2230	16.87	17.06	17.06
2300	16.76	17.04	17.04
2330	16.72	17.03	17.03
2400	16.72	17.03	17.03

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NGC Settlements Limited

Rural growth helps lift Hindustan Lever

By David Housego in New Delhi

HINDUSTAN Lever, India's largest foreign-owned group, has reported sharply increased profit and turnover for 1990-1991 in spite of political upheaval and the slowdown in economic growth in the year.

Hindustan Lever, a subsidiary of Unilever with interests in soap, detergents, toilet goods and chemicals, said gross sales had grown 22 per cent to Rs17.7bn ($648.6m), with pre-tax profits rising 24 per cent to Rs1.3bn.

The company said profit growth had come from core products, including soaps, detergents and toilet goods. All had benefited from the introduction of new brand names. Strong growth in rural demand, thanks to good monsoons and the rise in rural incomes, has also proved a boon for the group. In some products rural demand now accounts for half of sales.

Hindustan Lever's performance was above market expectations in a year that included the assassination of Mr Rajiv Gandhi, the former prime minister, and probably negative industrial growth.

The trend among other companies to have reported 1990-91 earnings is also better than expected, however. According to the Economic Times research bureau the first 64 companies to report showed a 23 per cent rise in sales and a 25 per cent increase in profits before tax and depreciation.

Hindustan Lever says its higher profits included financial savings, reflecting its low debt burden. The deep indebtedness of most companies was reflected in a 65 per cent increase in interest charges among the first 64 companies to report.

Aegon buys into Hungarian group

AEGON, the second largest Dutch insurance group, is to take a 75 per cent stake in Allami Biztosito (AB), the state-owned Hungarian insurer, for a reported $50m, writes Nicholas Denton in Budapest.

Aegon said the Hungarian acquisition was a logical step in its strategy of expanding from a north-west European and US base into southern and eastern Europe. Aegon has said that it is in talks with Tirrenia, the Italian insurer.

Fall of 64% in profits at Beguet

BENGUET Corporation, the Philippines' largest gold producer, reported consolidated net profits for 1991 of 91.1m pesos ($3.7m), a fall of 64 per cent from the previous year's 251.7m pesos, writes José Galang in Manila.

Mr Dennis Belmonte, president, said non-recurring gains from the sale of property provided the bulk of 1991 profits.

Operating revenues fell 8.5 per cent to 3.65bn pesos due to lower production and metal prices. Production of gold fell 21.5 per cent to 107,265 oz while copper production fell 14 per cent to 31.17m lbs.

Net profits fell 26.5 per cent in 1990.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Election concern depresses prices

A MOOD of despondency settled over the government gilt-edged securities market, as the bonds shed around 1¼ points on the week on a wave of concern about the Conservative government's prospects in the April 9 general election.

The unveiling by Mr Norman Lamont, the chancellor, of a Budget which many judged to be less than helpful to the Tories' chances set the tone. Many in the City were disappointed the Budget failed to feature the sweeping tax cuts which might have formed a good platform for the Tory election campaign.

Dramatically, Mr Lamont also indicated the government's finances were in a far worse state than many had expected. This will lead to a surge in issues of gilts over the next two to three years to pay for an increase in borrowing, and the result of this will be to depress prices of the bonds.

But it was the feeling that the Tories might be losing their grip on voters' sentiments which had the biggest effect on the gilt market. Many investors view with trepidation the prospects of Labour forming the next government, largely due to theories that Labour would be likely to push up government borrowing still more or cause a run on the pound.

That was behind both the severe markdown in gilt prices – which wiped out the gains of January and February and pushed up yields to around their levels at the beginning of the year – and also the soggy tone of sterling. The pound lost nearly 1½ pfennigs on the week to close at 2.855.

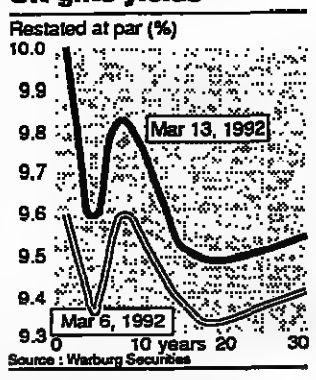
With the pound trading at around 9 pfennigs below its central DM2.95 rate in the European exchange rate mechanism, the gilt market is extremely cautious about whether the government will be able to push through an early cut in base rates. Many believe a cut is needed to revive the ailing economy.

However, the sentiment is growing that, because of the need to defend sterling, the UK authorities might soon after the election have to push up lending rates, rather than bring them down. That could happen, on the assessment of many in the markets, irrespective of the political colour of the next government.

Reflecting this sentiment, last week's rise in yields was especially pronounced at the short end of the yield curve, which reflects expectations of changes in base rates, which have been held at 10.5 per cent for more than six months.

The short-dated 10 per cent Treasury stock maturing in 1994 dropped from 100¾ at the close of the previous week to 99⅞ on Friday, with its yield up 35 basis points (0.35 per cent) to 10 per cent. There was a less pronounced change for the longer-dated 9 per cent Treasury stock due in 2008, which closed on Friday at 96¼, from 95½ the week before, with the yield rising to 9.54 per cent from 9.37 per cent.

UK gilts yields



Source : Warburg Securities

There is a distinct possibility of a further rise in yields this week, resulting from a batch of economic data which is expected to paint a bleak picture about economic prospects. Next Thursday's unemployment statistics are expected to indicate a rise last month of about 35,000 in the official jobless total, now at about 2.6m.

Even though the outlook for inflation looks reasonably good – next Friday's announcement about retail price inflation is expected to put the headline figure last month at 4 per cent, after 4.1 per cent in January – the political impact of the less than cheerful news on the economy will probably be negative for gilts. "Everything is looking a bit fragile at the moment," said Mr Gwynn Hacche, an economist at stockbroker James Capel.

As for the PSBR, Mr Lamont said the figure for the fiscal year beginning on April 1 would be £28bn, after £14bn in 1991-92. Many had previously reckoned these two figures would be nearer £25bn and £12bn respectively. According to the Treasury, there is worse to come in 1993-94, when the PSBR is likely to be £32bn, or 4.75 per cent of gross domestic product.

Given the Treasury's poor record on forecasting in recent years, and the tendency of the government to look on the optimistic side when it comes to economic prospects, many in the gilt market reckon the true figures will be far higher, which last week served to deepen the general mood of gloom affecting gilts.

Peter Marsh

BELGIAN BONDS

Focus on government's debt-cutting plans

THE BELGIAN bond market is holding its breath until it sees how the new government of Prime Minister Jean-Luc Dehaene plans to cut the overhang of public debt. This is still a record among OECD countries at 130 per cent of gross national product (GNP).

Mr Philippe Maystadt, the finance minister who stays on in the new government, created a flutter in the financial markets last week when he suggested Belgian rates might come down a bit.

The National Bank promptly quashed the idea, saying even a slight cut would have to await similar developments in Germany and the Netherlands. For two years, Belgium has kept its franc closer to the German and Dutch currencies than the European monetary system requires.

Mr Maystadt was tempted into his remarks by a desire to make political capital out of the improvement in most of the fundamentals of the Belgian economy. In particular, inflation sank in February to a year-on-year rate of 2.3 per cent, or 2 percentage points lower than the price trend in both Germany and the Netherlands. Wage moderation is accentuated by the indexation system when inflation is on the way down. Belgium's current account surplus continues in steady surplus of around 2 per cent of GNP.

The only glaring black spot remains public debt, which is where the bond market, handling almost exclusively government paper, comes in. Recent Maystadt reforms have vastly improved this market. The government, which issued BFr830bn debt last year, is getting a better deal by submitting a new range of linear bonds to auction rather than paying fat commissions to a cosy consortium of underwriting banks. The government's first 15-year bond a few weeks ago was well received.

The spread on 10-year bonds over the German bond equivalent had fallen to 50 basis points by the end of last week, close to its historic low last summer. The market has recovered after the Maastricht agreement on European monetary union boosted hopes of further convergence.

The government's indebtedness still puts a credit risk premium on its borrowings. But Mr Peter Praet, Générale de Banque's chief economist, sees change on the way. "There are signs the new government plans quite a drastic fiscal package which, if credible, could see the spread coming down to 30 basis points."

The catalyst, as elsewhere in Europe, is the Maastricht agreement that governments can only qualify for monetary union by bringing their total debt down towards 60 per cent of GNP and annual budget deficits down to 3 per cent of GNP. The Dehaene government has committed itself to trying to hit these targets by 1996.

Belgium still has miles to go before it rests. Even if the budget deficit – 6.3 per cent of GNP last year – were reduced to 3 per cent by 1996, its debt would then still be 110 per cent of GNP, and 80 per cent by 2006, according to one authoritative estimate.

David Buchan

US MONEY AND CREDIT

Recovery signs deepen rates gloom

THE BEAR market in US government bonds passed a significant milestone late last week when the yield on the 30-year Treasury issue rose through the psychologically-important 8 per cent barrier.

With the market now almost universally gloomy about the long-term trend of interest rates, the main question facing dealers is whether the market is oversold and whether this leaves scope for a short, sustained rally over the next few months before the bears really get a grip.

It was not meant to be like this. Back at the turn of the year, when the bond market was still basking in the Fed's dramatic December 20 easing of monetary policy, the benchmark 30-year issue was yielding around 7.5 and plenty of analysts expected it to dip to around 7 per cent before reversing direction around mid-year.

But the market quickly took fright at the prospects for economic recovery, and those anxieties have been intensified by the positive statistical data of the past few weeks.

Last week, in particular, brought surprisingly strong figures for February retail sales, with a 1.3 per cent increase coming on top of a revised 2.1 per cent January gain.

This pace of advance is not sustainable, and may have been buoyed by special factors, such as a more-rapid-than-usual despatch of tax refunds, but it does add weight to evidence of a recovery in consumer confidence.

It was the shock of the retail sales figures which pushed the long bond to close on Thursday above 8 per cent for the first time since last November.

Better-than-expected producer price figures on Friday morning temporarily pushed it back below 8 per cent, but that was rapidly reversed when the market saw that figures showing business inventories dipped 0.4 per cent in January, which provided more evidence of recovery.

Any lingering hopes in the market of an early easing of monetary policy by the Federal Reserve have now been quashed. Rather, attention is now focusing on just when the Fed might begin tightening again.

There is clearly no early need. Money supply M2, which increased by $2bn in the week to March 2, is slightly above the mid-point of the Fed's target range, while Friday's producer price figures, showing a 0.2 per cent increase in February, or 0.1 per cent when food and energy are excluded, compared with consensus forecasts of 0.3 per cent on both measures.

So far this year the annual rate of inflation is running at around 2.4 per cent, based on the core producer price index.

This week will bring consumer price figures which are expected to underline this benign picture. Analysts are expecting a rise of around 0.4 per cent, both including and excluding energy prices.

At the same time, the economic recovery still hardly looks that robust. Figures for February industrial production, due out tomorrow, are expected to show a rise of 0.7 to 0.9 per cent, breaking a spell of three consecutive monthly declines.

Yet many of the main indicators are little higher than in the middle of last year, the consumer remains edgy, and the recent trend of rising interest rates could start to choke off recovery.

All these factors could prove positive for the bond market over the next few months, if the view takes hold that inflation really is under control and the economy is unlikely to grow at much more than a 3 per cent annual rate in the second half of the year.

Continued Congressional deadlock over a fiscal policy would also help the mood of the market, which took fright at last week's statement by President Bush that he was more concerned about growth than bringing down long-term interest rates.

This is why a substantial number of Wall Street analysts are predicting a mini-rally which could carry the yield on the long bond back down to around 7.75 to 7.80 per cent over the next few months.

In the second half, however, most expect the yield on the long bond to be nudging back up towards 8.5 per cent, against a background of a gently tightening Fed, sustained economic expansion, an uncertain presidential race and the danger of fiscal excesses in Washington which could send the budget deficit soaring again.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	3.63	3.50	3.83	11.00	2.00
Three-month Treasury Bills	4.14	4.12	3.89	8.29	3.76
Six-month Treasury Bills	4.36	4.27	4.03	7.70	3.89
Three-month prime CDs	4.30	4.32	4.15	7.17	4.01
30-day Commercial Paper	4.25	4.37	4.00	7.13	3.93
90-day Commercial Paper	4.32	4.36	4.20	7.02	3.92

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	7.39	7.15	6.99
10-year Treasury	[illegible]	[illegible]	7.70	7.47	7.38
30-year Treasury	[illegible]	[illegible]	8.06	7.92	7.81

Money supply: In the week ended March 2, M1 rose by $1.5bn to $935.7bn. M2 rose by $1.8bn to $3,479.3bn.

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. on day	Chg. on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units. FLOATING RATE NOTES: [illegible] CONVERTIBLE BONDS: [illegible] WARRANTS: [illegible]

Closing prices on March 13

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Spaniards now free to tap foreign funds

SPANISH borrowers are expected to make more frequent use of the international syndicated loans market, following the recent lifting of restrictions on overseas borrowing. Bankers in London and Madrid believe companies such as Iberia, Telefonica, Repsol and Endesa may be tempted to tap the international markets in the coming months.

The latest Spanish name to launch a syndicated loan is Comite Organizador Olimpico Barcelona 1992, known as Coob – or the Organising Committee for the Olympic Games in Barcelona. The Pta28.311bn loan will be used to pay for construction and other costs associated with the games. Banesto, the Spanish bank, is lead manager and agent, and expects 50 to 60 mainly European banks to participate.

Coob took out a short-term Pta19.5bn bridge loan in December 1991 due to mature in August 1992. It carried a margin of 62.5 basis points over the London interbank offered rate, and fees of 10 basis points.

The new credit is intended to replace the bridge loan and increase the size of the borrowing. The one-year loan is guaranteed by the Kingdom of Spain and, while the borrower is the Olympic committee for the first year, the loan can be transferred to the Kingdom of Spain thereafter and extended to five years. The margin is 18.75 basis points over Libor and there is a front-end fee of 25 basis points.

Until last month, Spanish borrowers needed Bank of Spain permission to borrow in a foreign currency. As one banker who works with Spanish corporate borrowers put it: "The Bank of Spain was quite capable of discouraging companies or the autonomous communes from borrowing abroad."

Another banker said: "Companies had to maintain an interest-free deposit with the Bank of Spain equivalent to 30 per cent of the total loan, but this year all the restrictions have been abolished."

Spanish borrowers such as Fecsa, the Catalan utility, and Iberia, the airline, have used the international credit markets in the past.

Fecsa did a small deal for $58m in December 1990, priced at more than 55 basis points over Libor. In May 1991 it launched a $150m loan – which was increased to $300m – with a margin of 55 basis points over Libor. Last month it launched an Ecu125m deal – split in two tranches of Ecu90m and Pta4.6bn – and priced at 50 basis points over Libor.

One banker points out that Spanish names are "keener to do European currency borrowings [EMS member currencies] rather than US dollar borrowings", in order to reduce the currency risk.

The high level of pricing – in terms of the margin over Libor and the fees – may also encourage more discreet bilateral deals than public syndicated loans initially. But bankers believe the trend will be towards a wider use of the international markets by Spanish borrowers.

Sara Webb

EUROMARKET TURNOVER ($m)

	Primary Market US $	Primary Market Non-$	Secondary Market US $	Secondary Market Non-$
Fixed income bonds				
Euros straight	608.3	3,744.6	22,246.9	40,626.1
Other straight	0.0	2,367.6	431.5	102,945.1
Convertible	0.0	232.7	705.8	1,182.7
Money market instr				
FRN	231.4	1,414.2	6,963.5	4,722
CD's	120.0	70.4	790.1	339.5
Short & MT Notes	14,015.7	9,806.6	6,665.6	17,629.9
Warrants	0.0	0.0	794.4	350.9
Equities	0.9	1.1	348.0	1,540.5
Total	14,875.3	17,667.6	38,963.8	168,498.7

	Cedel	Euroclear	Total
US$	17,938.0	35,901.1	[illegible]
Other	59,662.9	121,483.4	181,146.3

Week to March 12,1992

The Warrants and Equities figures are from Euroclear only. Source ISMA

INTERNATIONAL BONDS

Japanese bankers keen to develop domestic sector

THE international bond market looks set to face a potent new competitor over the next few years as Japanese bankers look to develop their domestic bond market.

Earlier this month Tokyo Electric Power (Tepco), the largest Japanese electricity utility, launched a Y100bn three-year bond issue in Japan. The deal, lead-managed by Nomura Securities, was one which many syndicate managers expected to see launched in the international market.

In the past, large Japanese utilities have funded themselves much more cheaply by launching international bonds, mainly because fees charged by underwriting firms in the Eurobond market were smaller. But the Tepco issue shows Japanese underwriting fees are falling. The deal carried full fees of 0.45 per cent (45 basis points). Under the old system of semi-fixed commissions, borrowers had to pay at least 1 per cent of the total amount raised.

Direct comparison with the old system is difficult, because the Tepco deal was the first domestic corporate bond issue with a three-year maturity.

Until last year, the Bank of Japan prohibited companies from issuing bonds of less than five years' maturity. This was seen as a way of keeping markets for shorter-dated securities clear to meet banks' wholesale funding needs.

However, in January last year Chugoku Electric Power received permission to launch a four-year deal. Bankers said the Tepco deal demonstrated that the authorities were prepared to erode further the banks' monopoly on shorter-maturity bond issues.

Japanese securities firms have also been importing new issue underwriting and syndication techniques from the international bond market. Last autumn, Nippon Telegraph and Telephone launched the first domestic yen bond issue to be re-offered to investors at a fixed price. The issue was lead-managed by Nomura and Morgan Stanley, the US firm which pioneered the technique in the international bond market in 1989.

The idea of the fixed-price reoffer is to prevent junior members of the underwriting group from flooding the market with discounted bonds if a deal appears to be proceeding badly. The lead bank can hold the bonds at a fixed price until it is satisfied the bulk of the deal has been placed with end investors. Only then is the issue allowed to float and *find a true market price.*

The technique is now favoured in most sectors of the international bond market. It is widely credited with helping to restore the profitability of underwriting firms and the faith of institutional investors in the primary market – since prices are less likely to fall straight after launch.

The Tepco bond issue was also sold in this way.

Japanese bankers' desire to develop their domestic bond market stems from a recognition that the supply of equity finance which fuelled the Japanese economy in the 1980s has dried up. Companies are now much more reliant on debt to fund investment.

In the late 1980s Japanese companies had access to almost unlimited amounts of equity finance as the stock market boomed. In the last quarter of 1989, just before the equity market collapsed, Japanese companies raised a staggering Y9,000bn of equity or equity-linked finance. In the fourth quarter of last year, by comparison, the amount raised was only Y1,000bn.

In addition, many of the equity-linked bond issues launched in the international bond market in the late 1980s are now due for redemption. Around $78bn equivalent of warrant bonds need to be repaid next year, for example. Since the appetite of international investors for equity-linked finance is now much less, Japanese companies will have to rely on their domestic investors for a significant portion of this refunding.

However, there are obstacles to the rapid development of a mature domestic bond market in Japan. Clearing and settlement remains cumbersome. Physical exchange of bond certificates is still the norm and the system is dominated by the Industrial Bank of Japan.

Partly as a result, secondary market trading of corporate bonds is limited. Bankers are keen to streamline the system and invest in new technology, but agreement on the structure and funding of such a system has yet to be reached.

In addition, access to the bond market is still limited to only a few big borrowers because Japanese investors want collateral to back any form of debt finance. Desire for collateral and security is not unique to Japan. But the concept is strong enough to have effectively blocked most sectors of industry from issuing domestic bonds.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Daito Trust Const.(o)§	300	1999	7	3	100	Yamaichi Intl.(Europe)	3.02
General Electric Co.†	300	1997	5	7⅛	101.536	Crdt.Suisse First Boston	6.763
Cariplo(g)‡†	200	1997	5	(c)	100	UBS Phillips & Drew	-
Japan Radio Co.(j)♦†	150	1996	4	3	100	Nikko Europe	3.000
Isveimer.(h)‡†	150	1995	3	(d)	100	Bankers Trust Int.	-
Taisei Prefab Constr.(l)♦†	100	1996	4	3	100	Yamaichi Int.	3.000
Nakano Corp.♦	75	1996	4	3¼	100	Yamaichi Int.(Europe)	3.25
Daiwa Overseas Fin.(p)‡†	40	2002	10	(c)	100.2	Daiwa Bk. Cap. Mang't	-
D-MARKS							
German St.of Lower Saxony†	500	2007	15	Zero	34.433	Morgan Stanley	-
Asfinag(l)♦	300	2002	10	8	102.0	UBS Bank (Frankfurt)	7.707
General Electric Co.†	300	1997	5	8	102.3	J.P.Morgan	7.433
Renault Credit Intl.†	300	1997	5	8¼	102.05	Deutsche Bank AG	7.740
LKB Baden-Wuert.Fin.†	200	1996	4	8	101.25	Trinkaus & Burkhardt	7.626
Asik-Cger Ifico.(a)‡†	100	2007	15	(c)	100	Trinkaus & Burkhardt	-
Nohmi Bosai(c)♦†	70	1996	4	4⅜	100	Daiwa Europe GmbH	4.375
Tachi-S Co.(n)♦†	65	1996	4	4⅜	100	WestLB	4.375
Daishinku Corp(d)♦†	60	1996	4	4⅜	100	Daiwa Europe GmbH	4.375
Showa Highpolymer(b)♦†	50	1996	4	4⅜	100	Daiwa Europe GmbH	4.375
SWISS FRANCS							
Sankyu Inc.§	120	1996	4	6½	100	New Japan Bk.(Schz)	6.500
Hitachi Info Services‡	100	1996	-	3⅜	100	SBC	3.375
Hokuriku Electric Inds.★★†	85	1997	-	7½	99⅞	Bank of Tokyo (Switz)	7.531
KYC Machine Ind.(e)★★♦†	50	1998	-	3½	100	SBC	3.500
Kokusai Denshin Denwa★★†	50	1997	-	7	101½	Dai-Ichi Kangyo Bk.	6.638
KYC Machine Ind.(a)★★§†	20	1996	-	3¾	100	SBC	3.745
FRENCH FRANCS							
Republic of Finland.†	5bn	1997	5	9	99.689	BNP Cap.Mkts.	9.080
IMI International.†	1bn	2002	10	9⅛	101.40	Soc.Generale	8.908
Credit Foncier.(u)†	500	2002	10	8⅝	98.14	CCF	8.910
AUSTRALIAN DOLLARS							
St.Elec.Comm.of Victoria†	100	2002		11	102.645	Merrill Lynch Int.	10.559
Guiness Fin.Australia.†	75	1997	5⅜	10½	101.95	Hambros Bank	10.006
CANADIAN DOLLARS							
EIB(s)†	500	2002	10	8.875	99.64	Bankers Trust Int.	8.931
GECC.(t)†	150	1997	5½	9	100.865	Wood Gundy	8.776
YEN							
World Bank.(f)†	250bn	2002	10	5¼	99.23	(f)	5.420
Kingdom of Norway.(m)†	50bn	1997	5	5⅜	99.40	IBJ Int.	5.515
IABD.†	50bn	1996	3	5¼	100	Nomura Intl.	5.250

Borrowers	Amount m.	Maturity	Av life years	Coupon %	Price	Book runner	Offer yield %
Denki Kagaku KK.†	20bn	1996	4¼	5.70	101¼	Nikko Europe	5.357
Denki Kagaku KK.†	20bn	1997	5	5.75	101.60	Nikko Europe	5.387
Kokusai Denshin Denwa.†	15bn	1999	7	6.1	101.25	Nikko Europe	5.879
Stanley Electric Co.†	6bn	1999	7	6.4	101.10	Daiwa Europe	6.202
Stanley Electric Co.†	6bn	1997	5	6.3	101.55	Sanyo International	5.933
ECU							
Deutsche Bk.Finance NV.†	300	1999	7	8⅜	101.45	Deutsche Bk.Cap.Mkts.	8.096
Nu Bk.Voor Nederland.†	200	1997	5	8⅝	101.65	ABN Amro	8.209
BP America.†	150	1999	7	8⅝	101.325	UBS Phillips & Drew	8.367
Shimano Inc.♦	100	1996	4	4⅞	100	Nikko Europe	4.875
PESETAS							
Intl.Finance Corp.(k)†	10bn	1997	5	10.4	101.6	B'co.Cent.Hispano Am.	9.978
LIRE							
The Euro.Coal & Stl.Comm.†	500bn	1997	5	10.3	101.5	BNL	9.905
Eurofima.†	200bn	1999	7	11⅛	101.5	IMI Bank (Lux)	10.85
Ireland†	150bn	2002	10	11¼	101.45	BAI	11.004
IRISH PUNT							
Kredietbank Intl. Fin.(r)†	25	1994	2	9½	100⅞	Kredietbank Intl.Grp.	9.000
GUILDERS							
Kredietbank Intl. Fin.(q)†	150	2002	10	8½	100½	Rabobank Nederland	8.424
LUXEMBOURG FRANCS							
ABDIJ National Fist Capt.	1bn	2002	10	9	102.35	Credit Lyonnais	8.640
Sth Australian Gov't★★†	1bn	1995	3	9.187	102.1	BGL	8.202
Delfined B.V.‡†	750	1999	7	9⅛	102.2	Cregem Intl.Bk.S.A	8.692
Electrolux AB†	600	1995	3	9¼	102.2	BGL	8.390
Bacob Overseas ★★†	500	1999	7	9	102½	Bacob Bamk (Lux)	8.510

★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate notes. ♦Variable rate note. †Final terms. a) Put option 20/9/94 at 108½% to yield 6.99%. Conversion premium fixed at 2.50%. Non-callable. b) Exercise premium fixed at 2.54%. Non-callable c) Exercise premium fixed at 2.50%. Non-callable. d) Exercise premium fixed at 2.54%. Non-callable. e) Exercise premium fixed at 2.60%. Non-callable f) Coupon payable semi-annually. *Book runners are IBJ Int. Nomura and JP Morgan* g) Coupon pays ⅛ above 6 month Libor. Non-callable h) Coupon pays 30bp above 6 month Libor. i) Exercise premium fixed at 2.53%. j)Exercise premium fixed at 2.62%. Non-callable. k) Matador Bond. Non-callable l) Callable 1994,1995 and 1996. m) Fungible with existing Yen 100bn deal landed 21/1/92. n) Exercise premium fixed at 2.62%. Non-callable o) Callable and Putable. Coupon payable semi-annually. p) Coupon pays 55bp above 6 month Libor. Callable on 27/3/95, years 1-3 are FRN. Years 4-10 are at 9¼% fixed rate. q) Subordinated issue. Non-callable. r) Amount increased from 25m. Non-callable s) Coupon pays 37.5bp over 6month Libor. The deal is redeemed in DM20m increments in years 11-16. Non-callable. t) Fungible with existing C$150m bond. Non-callable. u) Fungible with existing FFr3bn. Non-callable.

CONTRACTS & TENDERS

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Mar 13	Mar 12	Mar 11	Mar 10	1992 HIGH	1992 LOW	Since compilation HIGH
Industrials	3235.91	3208.63	3208.63	3230.99	3290.25 (3/3)	3172.41 (2/1)	3290.25 (3/3/92)
Home Bonds	98.69	98.67	98.98	99.06	99.81 (6/2)	98.56 (24/2)	99.81 (6/2/92)
Transport	1400.78	1393.12	1389.95	1408.07	1467.68 (20/2)	1342.12 (2/1)	1532.01 (5/9/89)
Utilities	203.30	204.43	204.56	205.12	225.59 (3/1)	202.55 (6/3)	236.23 (2/1/90)

Day's High 3252.24 (3232.39) Low 3203.71

STANDARD AND POOR'S	Mar 13	Mar 12	Mar 11	Mar 10	1992 HIGH	1992 LOW	Since compilation HIGH
Composite	405.84	403.89	404.03	406.89	420.77 (15/1)	403.89 (12/3)	420.77 (15/1/92)
Industrials	483.15	480.59	480.63	483.94	499.27 (15/1)	480.59 (12/3)	499.27 (15/1/92)
Financial	33.91	33.76	33.84	34.29	35.14 (15/1)	33.53 (31/1)	35.24 (9/10/89)
NYSE Composite	224.30	223.30	223.55	225.05	231.85 (15/1)	223.30 (12/3)	231.85 (15/1/92)
Amex Mkt. Value	404.06	403.59	405.85	408.54	418.99 (12/2)	395.51 (2/1)	418.99 (12/2/92)
NASDAQ Composite	618.62	615.60	617.14	623.46	644.92 (12/2)	586.45 (2/1)	644.92 (12/2/92)

	Mar 6	Feb 28	Feb 21	year ago (approx)
Dow Industrial Div. Yield	2.84	2.79	2.78	3.40

	Mar 11	Mar 4	Feb 26	year ago (approx)
S & P Industrial div. yield	2.64	2.61	2.57	3.03
S & P Indl. P/E ratio	28.51	28.61	29.03	17.53

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Valassis	4,404,400	16⅛	-⅛
LL & E Royalty	2,901,500	3⅝	+⅛
Pfizer	2,236,800	71⅛	-1⅛
Sanchi	2,229,400	8	+⅛
RJR Nabisco	2,160,300	10⅛	+⅛
Homestake	2,016,000	13⅝	-1⅛

TRADING ACTIVITY

† Volume Millions	Mar 13	Mar 12
New York SE	176.000	180.240
Amex	17.098	12.514
NASDAQ	(u)	189.534
NYSE Issues Traded	2,190	2,198

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and ... – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/ ... plus Utilities, Financial and Transportation. (c) Closed. (u)

**Saturday March 7: Taiwan Weighted Price ... Subject to official recalculation.
Base values of all indices are 100 except: Austria Traded ... and DAX – 1,000, JSE Gold – 255.7, JSE 25 Industrials ... Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Friday March 13 1992

	Stocks Traded	Closing Prices	Change on day
Hitachi	7.8m	768	+4
Nippon Zeon	7.8m	702	-35
Daiichi Pharm	7.2m	1,770	+110
Nippon Steel	6.8m	306	[illegible]
Okamoto	6.9m	1,330	-40
Japan Storage	5.4m	1,170	-40
NKK	6.3m	294	+3
Mitsubishi Heavy	[illegible]	582	[illegible]
Kinki Nippon	5.3m	754	-5
Nippon Mining	5.1m	480	-20

FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

AUTHORISED UNIT TRUSTS

[illegible]

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro

INITIAL CHARGE: Charge made on sale of units. [illegible] This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

[illegible]

FT MANAGED FUNDS SERVICE

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Standard Life Tst Mgmt Ltd (0629)H

Stewart Ivory Unit Tst Mgrs Ltd (1200)H

Storebrand Intl Inv Mngrs Ltd (1200)F

Sun Alliance Unit Tst Mgmt Ltd (1200)F

Sun Life of Canada Unit Mgrs Ltd (1000)H

Sun Life Unit Tst Mngmt Ltd (1200)H

Swiss Life Unit Tst Man Co Ltd (1200)F

TSB Unit Trusts (1200)H

T.U. Fund Managers Limited (1200)H

Target Trust Mngrs Ltd (1200)F

Templeton Unit Trust Managers Ltd (1200)F

Thornton Unit Managers Ltd (1000)F

Three Counties Asset Mngmt Ltd (1430)F

Timberlake Trust Mngrs Ltd (0900)F

United Charities Unit Trusts (1000)H

Waverley Unit Tst Mngmt Ltd (1000)F

Wessex Asset Management (1600)F

Whittingdale Unit Tst Mgmt Ltd (0830)F

Woolwich Unit Trust Managers Ltd (1700)H

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

James Capel Fund Managers Ltd

Cent. Bd. of Fin. of Church of England

Charinco/Charishares (1000)F

CAFINVEST-Charities Aid Foundation

COIF-Charities Official Inv Fd

Charity Fixed Int Fd/Charity Equity Fd

Edinburgh Fund Mngrs PLC

Fidelity Investment Services Ltd

Robert Fleming Asset Mngmt Ltd

Funds in Court*

Henderson Unit Trust Management Ltd

INVESCO MIM Management Ltd

Lazard Brothers & Co. Ltd

Lazard Investors Ltd

Local Authorities Mutual Invest. Tst.

M & G Securities Ltd

Morgan Grenfell Investment Funds Ltd

Murray Johnstone UT Mngmt

Phillips & Drew Fund Management Ltd

J. Rothschild Fund Managers Ltd

Rothschild Asset Management

Scottish Amicable Touche Remnant UT Mgmt

Stewart Ivory & Co Ltd

Touche Remnant Unit Managers Ltd

INSURANCES

Abbey Life Assurance Co Ltd

Acorn Life Assurance Ltd

AEGON Life Assurance Co (UK) Ltd

Albany Life Assurance Co Ltd

Allied Dunbar Assurance Plc

Allied Dunbar Assurance Plc—Contd.

American Life Insurance Co UK

Avon Insurance Plc

Barclays Life Assur. Co Ltd

Black Horse Life Assurance

Britannia Life Assurance

Britannia Life Ltd

CIA Assurance Ltd

Canada Life Group

Cannon Assurance Ltd

Century Life Plc

Citibank Life

City of Westminster Assurance

Clerical Medical/Fidelity Investments

Clerical Medical Investments Group

Clerical Medical Managed Funds Ltd

Colonial Mutual Group

Combined Life Assurance Co

Commercial Union Group

Consolidated Life Assurance Co Ltd

Cornhill Insurance PLC

Crown Financial Management Ltd

Crusader Unit Assurance Ltd

Growth & Sec. Life Assce. Soc. Ltd

Guardian Royal Exchange

Eagle Star Life Assurance

Eagle Star Insur./Midland Assur.

Equitable Life Assurance Society

Equity & Law

Family Assurance Society

Friends Provident

General Portfolio Life Insur. Plc

Assicurazioni GENERALI SpA

Hearts of Oak Insurance Group

Henderson Administration

Hill Samuel Life Assur. Ltd

Homeowners Friendly Society

Ideal Insurance Co Ltd

Interlife Assurance Co Ltd

Irish Life Assurance Co Plc

Lancashire & Yorkshire Assce Society

Lincoln Life plc

Legal & General

Liberty Life Assurance Co Ltd

Life Association of Scotland

Lifetime Assurance Co Ltd

London Indemnity & Gnl. Ins. Co Ltd

London Life

London & Manchester Group

M & G Life and M & G Pensions

MGM Assurance

Manchester Unity Assurance

Merchant Investors Assurance Co Ltd

Mercury Life Assurance Co Ltd

Midland Life Limited

NEL Britannia Assce Co Ltd

NEL Pensions Ltd

NM Life Assurance Ltd

N & P Life Assurance Ltd

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Continued on next page

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FT MANAGED FUNDS SERVICE

● Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 46p/minute at all other times. To obtain a free Unit Trust Code Booklet ring (071) 925-2128.

	Bid Price	Offer Price	Yield Gross	City-line
Norwich Union Life Insurance Soc.—Contd.				
Pensionvestor* & Unit-Linked Plus*				
Mixed Fund	445 6	469.1	–	43239
Ordinary Share Fund	670.4	705.7	–	43229
International Fund	174 3	183.5	–	43230
Property Fund	258.9	272.5	–	43231
Fixed Interest Fund	392 6	413.3	–	43227
Index-Linked Sec Fund	191 2	201.3	–	43228
Deposit Fund	277 4	292.0	–	43232
Norwich Units Feb 14	1863 70		–	43234
*Prices as at March 10				
Jersey Investment Plan				
With Profits Fund	122.51	128.96	–	40525
Intl Equity Fund	94 19	99.15	–	40438
Intl Bond Fund	121.39	127.78	–	40349
Norwich Union Pensions Management Ltd				
Surrey Street, Norwich, NR1 3NG				0603 683335
Group Pooled Pensions				
Balanced Managed Fd	313 96	319.25	–	44391
Growth Managed Fd	104 21	106.07	–	44395
Cautious Managed Fd	103 50	104 93	–	44399
Prices as at March 12				
Pearl Assurance (Unit Funds) Ltd				
Thorpe Wood, Peterborough PE3 6SA				0733 63212
Prop Dist. (Gross)	133 8	140 9	–	43235
Prop. Acc. (Gross)	255 1	268.5	–	43236
Equity (Gross)	851 6	896.4	–	43237
Managed (Gross)	596.2	627.6	–	43238
Prop Acc. (Net)	121.7	128.1	–	43239
Equity (Net)	192.7	203.1	–	[illegible]
Managed (Net)	183.9	193.6	–	43241
International (Acc)	168 4	177.2	–	43242
Gilt & Fxd Interest	132.1	139.1	–	[illegible]
Money Fund	137.1	144.3	–	43244
Mixed Fund (Cap)	116 8	123.0	–	46680
Mixed Fund (Acc)	120.1	126.5	–	46548
Pearl Assurance (Unit Linked Pens) Ltd				
Ret Man (Series 1)	648.1	682.3	–	43245
Ret Man (Series 2)	219.8	231.4	–	43246
Ret Cash	191 6	201.7	–	43247
Pens Mixed Fd (Cap)	129 8	136 8	–	46579
Pens Mixed Fd (Acc)	133 7	140.8	–	[illegible]

	Bid Price	Offer Price	Yield Gross	City-line
Provident Mutual Life Assc. Assn.—Contd.				
Fixed Interest Ord	217.8	229.3	–	43494
Fixed Interest Init	160.5	168.9	–	43495
Deposit Ord	183.2	192.8	–	43496
Deposit Init	135.0	142.1	–	43497
Pension Funds				
Managed Ord	455.5	479.5	–	43498
Managed Init	335.6	353.3	–	43499
Equity Ord	685.4	721 5	–	43500
Equity Init	505.0	531.6	–	43501
Pen Ind Lkd Gilt Ord	179.4	188.8	–	43502
Pen Ind Lkd Gilt Init	138.0	145.3	–	43503
Overseas Equity Ord	320.6	337.5	–	[illegible]
Overseas Equity Init	236.2	248.6	–	43505
Property Ord	278.6	293.3	–	[illegible]
Property Init	205 3	216.1	–	43507
Fixed Interest Ord	275.5	290.0	–	[illegible]
Fixed Interest Init	203.0	213.7	–	43509
Deposit Ord	261.1	274.8	–	43510
Deposit Init	192.3	202.4	–	43511
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH				071-405 9222
Prufund				
Managed Mar 11	259.7	270.4	–	43612
Prudential Corporate Pension Funds				
1 Stephen St, London W1P 2AP				071-548 3281
Prudential Managed Fund				
Discretionary Mar 12	£185.50	191.19	–	43539
Equity Mar 12	£210.00	217.14	–	[illegible]
International Mar 12	£28.68	29.28	–	43541
Intl Bond Mar 12	£34.81	35.01	–	43542
Fixed Int Mar 12	£100.29	101.43	–	[illegible]
Index Linked Mar 12	£73.12	74 04	–	[illegible]
Property Mar 12	£106.80	112.42	–	[illegible]
Cash Mar 12	£29.9094	29.9104	–	43546
Pru-Linked Retirement Plan				
Managed Mar 3	447.3	466.0	–	43547
Cash Mar 3	275.2	286.7	–	43548
Prudential Pension Investment Account				
Pens Mngd Mar 13	176.3	189.6	–	43549

Scottish Amicable
150 St Vincent St, Glasgow

Sun Alliance Group
St Mark's Court Horsham 0403 232323

Wesleyan Assurance Society
Colmore Circus, Birmingham, B4 6AR 021-200 3003

Windsor Life Assur Co Ltd
Windsor House Telford, Shropshire 0952 292929

Providence Capital International Ltd — Contd.

Royal Life Intl. Ltd

J. D. Ward Financial Services Ltd
9 Kingsway London, WC2 B6XF. 071-836 4321

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

Rothschild Asset Management—Contd.

Royal Bank of Canada Funds
RBC Offshore Fund Managers Ltd
PO Box 246 St Peter Port Guernsey 0481 723021

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

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		Bid Price	Offer Price	Yield Gross	City-line
CMI Fund Managers (IoM)					
Clerical Medical Hse, Douglas, IoM 0624 625599					
High Income	5	0.4884	0.4884	0.5142	10 2
CMI Core Portfolio Fund					
UK	5	£– 0.9994	1.0712	–	47540
USA	5	£– 1.0850	1.1511	–	47541
Japan	5	£– 0.5491	0.5796	–	47539
Equity & Law Intl Fund Mngrs Ltd					
Victory Hse, Prospect Hill, Douglas IoM 0624 677877					
Total Income Fd	5	94.98	94.98d	99.97	10.2
Gartmore Fund Managers (IoM)					
PO Box 32, Douglas, IoM 0624 627610					
Intl Grth	5¼	494.6	494.6	528.5	0.9
Leopold Joseph Fund Mngrs (IoM) Ltd					
PO Box 52 Athol St Douglas IoM 0624 661030					
LJ International	5¼	93.68	93.68	100.91	–
Mercury Fund Managers IoM Ltd					
11 Hill Street, Douglas IoM 0624 662255					
Merc IoM Fund	5	104.1	104.1	111.1	7.5
Merc Intl Bond	5	54.11	54.11	56.87	8.7
Sun Life Management (IoM) Ltd					
PO Box 178 Douglas IoM 0624 622444					
Secure High Income	6	1.0204	1.0204	1.0957	8.21
Unibank Scandinavian Fund Ltd					
23 Bucks Road Douglas, IoM 06246 26484					
Scandinavia Fd	5	–	(A) 17d	150.52	1.0

ISLE OF MAN (REGULATED)(**)

	Bid Price	Offer Price	Yield Gross	City-line
CMI Fund Mngrs (IOM)				
Traders Fund Ltd	$17.37	18.78	–	46364
*Dealings Wednesday				
City Financial Admin (IoM) Ltd				
Beckman Reserve Assets	103	103	2.70	47338
Duncan Lawrie Inv. Mgt. Ltd				
DL Sterling	136.3	143.2	4.9	44881
DL International	$1.60	1.70	1.7	44882

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS AND FOREIGN EXCHANGES

Watching the polls

THE MARKET will be looking for a stronger performance from the dollar this week while watching for the effect of UK opinion polls on sterling, *writes Neil Buckley.*

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

The US currency was felt by many to have underperformed last week, failing to take advantage of data showing a sharp rise in retail sales, and a rise in non-farm payrolls.

Many dealers feel a consumer-led recovery is now under way and will be keeping a close eye on this week's industrial production, inflation and housing starts figures on Tuesday, jobless claims on Thursday, and trade figures on Friday.

If these are as strong as expected, they could give the dollar the impetus it needs to challenge the DM1.68 and Y135 barriers. Some analysts suggest that if the market overcomes last week's reticence, the dollar could reach DM1.70 and Y137.

As sterling continues to look weak ahead of the UK general election on April 9, all attention will be fixed on the opinion polls, and on the opposition Labour party's alternative Budget on Tuesday. Thursday's unemployment figures, expected to show an increase of around 35,000, will also be crucial, for political as much as economic reasons.

Mr David Deakin of Nikko Bank warned: "It is only just now sinking in among the dealing fraternity that there is a reasonable probability of there being a Labour majority, and that is causing a lot of concern."

"There is a big risk on the downside for sterling."

He said a strong showing by Labour in the opinion polls would see sterling continue to fall against the D-mark, dragging down with it the peseta, top-placed currency in the Exchange Rate Mechanism, possibly even as far as its absolute floor of DM2.7780.

POUND SPOT - FORWARD AGAINST THE POUND

Mar 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7070 - 1.7170	1.7120 - 1.7130	1.03-1.01cpm	7.15	2.62-2.59pm	6.08
Canada	2.0440 - 2.0540	2.0505 - 2.0515	0.75-0.68cpm	4.18	1.53-1.38pm	2.84
Netherlands	3.2075 - 3.2220	3.2075 - 3.2175	½-¼cpm	0.93	¾-½pm	0.93
Belgium	58.55 - 58.95	58.55 - 58.65	6-4cpm	1.02	17-12pm	0.99
Denmark	11.0615 - 11.0995	11.0625 - 11.0725	1-½orepm	0.81	2¾-1½pm	0.77
Ireland	1.0705 - 1.0730	1.0700 - 1.0710	0.02-0.01cpm	0.17	0.05-0.02pm	0.13
Germany	2.8525 - 2.8600	2.8525 - 2.8575	½-¼pfpm	1.05	¾-½pm	0.88
Portugal	245.10 - 246.75	245.75 - 246.75	26-45cdis	-1.73	140-166dis	-2.49
Spain	180.40 - 180.95	180.55 - 180.85	35-46cdis	-2.69	80-94dis	-1.94
Italy	2138.50 - 2145.55	2140.00 - 2141.00	3-5liredis	-2.24	6-8dis	-1.31
Norway	11.1865 - 11.2195	11.2025 - 11.2125	⅞-¼orepm	0.67	1½-⅝pm	0.31
France	9.6800 - 9.7115	9.6825 - 9.6925	½-¼cpm	0.46	1-⅝pm	0.34
Sweden	10.3350 - 10.3715	10.3350 - 10.3450	¼-⅛orepm	0.22	1¾-2⅝dis	-0.87
Japan	228.25 - 229.25	228.25 - 229.25	1¼-1ypm	5.90	3½-3¼pm	5.68
Austria	20.07 - 20.14	20.08 - 20.11	3-1⅝gropm	1.38	6¼-4½pm	1.03
Switzerland	2.5750 - 2.5860	2.5750 - 2.5850	½-⅜cpm	2.03	1⅜-1¼pm	2.03
Ecu	1.3950 - 1.3995	1.3965 - 1.3975	0.09-0.05cpm	0.60	0.21-0.15pm	0.52

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.02-4.97pm. 12 Month 8.72-8.62pm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Mar 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7070 - 1.7170	1.7120 - 1.7130	1.03-1.01cpm	7.15	2.62-2.59pm	6.08
Ireland†	1.5940 - 1.6010	1.5990 - 1.6000	0.95-0.92cpm	7.01	2.51-2.44pm	6.19
Canada	1.1960 - 1.1995	1.1985 - 1.1995	0.29-0.31cdis	-3.00	0.96-1.02dis	-3.30
Netherlands	1.8715 - 1.8815	1.8750 - 1.8760	0.95-0.98cdis	-6.17	2.48-2.52dis	[illegible]
Belgium	34.20 - 34.40	34.20 - 34.30	16.00-19.00cdis	-6.13	43.00-47.00dis	-5.26
Denmark	6.4535 - 6.4845	6.4600 - 6.4650	3.23-3.53oredis	-6.28	8.40-9.00dis	-5.38
Germany	1.6625 - 1.6720	1.6660 - 1.6670	0.87-0.88pfdis	-6.30	2.22-2.24dis	-5.35
Portugal	143.65 - 143.90	143.65 - 143.75	112-118cdis	-9.60	310-320dis	-8.77
Spain	105.15 - 105.80	105.60 - 105.70	81-87cdis	-9.54	209-222dis	-8.16
Italy	1247.00 - 1253.50	1249.75 - 1250.25	8.10-8.60liredis	-8.02	23.40-24.40dis	[illegible]
Norway	6.5200 - 6.5550	6.5425 - 6.5475	3.58-3.88oredis	-6.84	9.60-10.10dis	-6.02
France	5.6450 - 5.6770	5.6550 - 5.6600	3.10-3.15cdis	-6.63	8.13-8.23dis	-5.78
Sweden	6.0280 - 6.0635	6.0350 - 6.0400	3.95-4.20oredis	-8.10	10.55-10.95dis	-7.12
Japan	132.95 - 133.80	133.50 - 133.60	0.10-0.11ydis	-0.94	0.16-0.18dis	-0.51
Austria	11.7220 - 11.7625	11.7375 - 11.7425	5.60-6.05grodis	-5.95	14.50-15.70dis	-5.14
Switzerland	1.5035 - 1.5120	1.5065 - 1.5075	0.65-0.68cdis	-5.30	1.55-1.59dis	-4.17
Ecu	1.2220 - 1.2285	1.2265 - 1.2275	0.69-0.66cpm	6.60	1.76-1.71pm	5.66

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Mar.13	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Ecu
£	1	1.713	2.855	228.8	9.688	2.580	3.213	2141.	2.051	58.60	1.397
$	0.584	1	1.667	133.6	5.656	1.506	1.876	1250	1.197	34.21	0.816
DM	0.350	0.600	1	80.14	3.393	0.904	1.125	749.9	0.718	20.53	0.489
YEN	4.371	7.487	12.48	1000.	42.34	11.28	14.04	9358	8.964	256.1	6.106
F Fr.	1.032	1.768	2.947	236.2	10.	2.663	3.316	2210	2.117	60.49	1.442
S Fr.	0.388	0.664	1.107	88.68	3.755	1	1.245	829.8	0.795	22.71	0.541
N Fl.	0.311	0.533	0.889	71.21	3.015	0.803	1	666.4	0.638	18.24	0.435
Lira	0.467	0.800	1.333	106.9	4.525	1.205	1.501	1000.	0.958	27.37	0.652
C$	0.488	0.835	1.392	111.6	4.724	1.258	1.567	1044	1	28.57	0.681
B Fr.	1.706	2.923	4.872	390.4	16.53	4.403	5.483	3654	3.500	100.	2.384
Ecu	0.716	1.226	2.044	163.8	6.935	1.847	2.300	1533	1.468	41.95	1

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

EURO-CURRENCY INTEREST RATES

[illegible]

£ IN NEW YORK

[illegible]

STERLING INDEX

[illegible]

CURRENCY MOVEMENTS

[illegible]

CURRENCY RATES

[illegible]

OTHER CURRENCIES

[illegible]

CHICAGO

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

[illegible]

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

FINANCIAL TIMES STOCK INDICES

	Mar 13	Mar 12	Mar 11	Mar 10	Mar 9	Mar 6	1991/92 High	1991/92 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.36	86.74	86.87	87.42	87.52	87.22	88.55	82.17	127.4	49.18
Fixed Interest	99.83	99.89	100.19	100.75	100.56	100.50	101.56	90.59	105.4	50.53
Ordinary	1935.8	1948.6	1966.6	2006.6	1984.4	1966.6	2108.3	1606.3	2108.3	49.4
Gold Mines	123.9	127.1	126.9	126.5	126.8	128.0	222.8	126.0	734.7	43.5
FT Act All-Share	1192.12	1199.62	1213.87	1236.54	1225.54	1218.30	1284.07	987.46	1284.07	61.92
FT-SE 100	2476.0	2493.3	2522.4	2574.8	2550.7	2533.1	2679.6	2054.8	2679.6	986.9
FT-SE Eurotrack 100	1154.40	1149.99	1161.88	1169.22	1165.45	1162.10	1176.44	900.45	1176.44	900.45
FT-SE Eurotrack 200	1168.66	1169.10	1183.98	1196.06	1187.66	1182.32	1200.90	938.62	1200.90	938.62

LONDON SHARE SERVICE

BRITISH FUNDS

[illegible]

OTHER FIXED INTEREST

[illegible]

BASE LENDING RATES

[illegible]

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	W'k% change	Div gross	Dividends paid	Last xd	City line
Abbott Labs		34½ xd	-2.1	$1.20	FeMyAuNv	18.1	1583
ψAllegheny & W.		314p	-2.2	30c	–	–	–
Amdahl		1079p	2.4	18c	NvMrJeAu	31.1	–
Amer Cyanamid		36	-2.0	$1.56	MrJeSeDe	4.2	–
Amer Express		12⅛ xd	-2.0	$1.00	FeMyAuNv	30.12	1694
Amer T & T.		22⅛ xd	1.1	$1.32	FeMyAuNv	27.3	1597
Ameritech		35	2.9	$3.40	FeMyAuNv	28.3	–
BankAmerica		25½ xd	-2	$1.36	FeMySeDe	20.2	1744
Bankers NY		33 xd	-2.0	$1.52	ApJyOcJa	27.12	1745
Bell Atlantic		24½	–	$2.52	FeMyAuNv	4.7	–
BellSouth		28½	1.4	$2.76	FeMyAuNv	6.4	–
ψBethlehem Steel		7⅝ xd	-10.8	–	MrJeSeDe	6.2	1821
Bowater		1491pxd	-6.3	$1.20	OcJaApJy	9.3	1884
CPC		40½ xd	–	$2.28	JaApJyOc	27.12	2263
California Engy		701p	-8.9	–	–	–	–
Campbell Soup	h	21½	0.9	70c	OcJaApJy	24.12	2050
Chase Manhattan		13⅞ xd	2.4	$1.20	FeMyAuNv	24.1	2109
Chrysler		9⅝ xd	-1.3	60c	ApJyOcDe	11.3	2135
Citicorp		9 xd	-1.6	–	–	23.12	2141
Colgate-Palm		28⅝ xd	-3	$1.08	FeMyAuNv	22.1	2184
Cont'l Bank		882p	-3.0	80c	DeMrJeSe	31.5	–
Dana		20⅛ xd	-1.8	$1.60	MrJeSeDe	23.2	2306
Data General		613p	-10.2	–	–	–	–
Dial		29⅛ xd	–	$1.40	JaApJyOc	26.2	2778
Dun & Brad		32½	0.8	$2.16	MrJeSeDe	13.2	–
Eaton		40¼	-3.3	$2.20	FeMyAuNv	2.2	2410
Echlin		67⅞ xd	-6	70c	JaApJyOc	30.12	3046
FPL		19⅞ xd	1.0	$2.40	MrJeSeDe	25.2	–
Fluor		23⅞ xd	-3.8	40c	JaApJyOc	18.12	2609
Ford Motor		21½ xd	2.1	$1.60	MrJeSeDe	28.1	2815
Gen Elect		45⅛ xd	-3	$2.20	JaApJyOc	4.3	2875
ψGeneral Host		497p	1.8	36c	–	13.12	–
Gillette		27⅝ xd	-2.7	62c	MrJeSeDe	28.1	2695
[illegible]							

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

[illegible]

BUSINESS SERVICES

[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING - AEROSPACE

[illegible]

ENGINEERING - GENERAL

[illegible]

ENGINEERING - GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HEALTH & HOUSEHOLD - Cont.

[illegible]

HOTELS & LEISURE

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIAL MATERIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

STORES - Cont.

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

Kells Mnls IC	38	—	–	–	–	–	3741
Kenmare	4¾	—	–	–	–	–	1453
Navan Res IC	26	-2.0	–	–	–	–	1166
Northgate Expl C$	44	1.1	–	–	–	10.77	–
North West Expl A$	3	—	–	–	–	–	–
Oryx Gold $	80	0.6	–	–	–	–	3686
Ovoca Gold IC	30	...	–	–	–	–	1470
Plateau	9	—	–	–	–	–	3407
RTZ	671	5.9	18.6	1.5	Dec Jul	[illegible]	[illegible]
Vizcaya	2	—	–	–	–	–	4193
Western & Pac C$	[illegible]	23.7	–	–	–	–	–
Young Grp	47	4.4	5.8	1.6	May Oct	[illegible]	[illegible]

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ■ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ), and non-UK stocks which are quoted on SEAQ International
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✧ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- §§ Not officially UK listed; dealings permitted under Rule 535(2)
- ‖ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♠ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♣ Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. z Dividend includes a special payment: Cover does not apply to special payment. E Minimum tender price. F Dividend based on prospectus or other official estimates for 1990-91. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1991. K Dividend based on prospectus or other official estimates for 1992-93. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1991-92. N Dividend based on prospectus or other official estimates for 1992. P Figures based on prospectus or other official estimates for 1991. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service

Additions URS Intl. (Section Americans)

Deletions Turriff (Contracting & Construction); RMT (Electronics); Principal Hotels (Hotels & Leisure); Ensign Trust Ord. & B shares (Inv. Trusts); Atlantic Secs. (Inv. Companies); Ambrit Intl. and Atlantic Res. (Oils); Amalg. Financial Invs. (Other Financial); Allied Partnership (Other Indl. Material); Stormgard (Packaging & Paper); Control Secs. (Property) and Panfida (Stores).

4:00 pm prices March 13

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅝	12¾	AAR Corp	0.48	3.2	16	114	15	14½	14⅞	
26	20⅜	A L Labs A	0.16	0.7	104	2376	21⅞	21⅛	21⅞	+⅝
62¼	58⅛	AMP Inc	1.52	2.5	24	1018	60	59⅝	59⅞	-¼
80¼	68⅛	AMR			27	2749	78¼	77¼	78	+½
2⅜	1⅛	ARX			2	18	2	1⅞	1⅞	
53½	45¼	ASA	2.78	6.1	13	662	45¼	d44⅝	45¼	+⅛
68⅞	59⅛	Abbott Lab	1.20	2.0	23	5147	60¼	59⅝	59¾	
13½	12⅛	Abitibi Pr	0.43	3.3	27	2100	13⅛	13⅛	13	
11⅝	10⅜	ACM Gvt In x	0.96	9.1		152	10½	d10⅜	10½	
10⅜	9⅛	ACM GvOpp x	0.80	8.6		99	9⅜	9¼	9¼	-⅛
9½	8⅝	ACM Gvt Sp x	0.80	9.1		240	8⅞	8¾	8¾	
11¼	10⅛	ACM Gvt Se	0.96	9.2		482	10½	10⅜	10⅜	-⅛
9⅞	8⅝	ACM Man x	0.95	10.7		679	9	8¾	8⅞	-⅛
12⅞	10⅞	ACM Managd x	1.08	9.6		520	11⅜	11¼	11¼	-⅛
10⅛	7	Acme Cleve	0.40	4.1	18	82	9⅞	9¾	9¾	-⅛
6¼	4½	Acme Elect			4	69	6⅛	5⅝	5⅝	-¼
33¼	19½	Acuson			12	2139	21	20⅝	20⅝	-⅛
19⅜	18½	Adams Expr	0.48	2.6	0	41	18⅞	18¾	18¾	
15½	13	Adobe12Pf	2.40	17.0		16	14⅛	14⅛	14⅛	
5⅞	4½	Adobe Res			2	71	4⅞	4⅞	4⅞	-⅛
49⅛	40½	Ad Micro	3.00	6.9		253	43¾	43¼	43½	+½
21½	18½	Ad Micro P	3.00	16.8	11	3338	18	17¾	17⅞	+⅛
9⅛	6	Advest Grp	0.16	2.1	31	54	7¾	7⅝	7⅝	-⅛
71¾	67⅛	Aegon ADR			6	11	68	67⅝	68	+¼
47	39	Aetna Li	2.76	6.2	9	1731	44⅜	44	44¼	+⅜
12	8⅞	Afil A	0.24	2.4	71	428	10⅜	10	10	-⅜
32⅞	26	Aflac	0.40	1.4	15	1291	29	28¾	28⅞	-¼
19⅞	15⅝	Ahmanson	0.88	5.2	8	1792	17¼	16⅞	16⅞	-⅛
22½	15	Aileen Inc			15	173	18¼	17¾	17¾	+¼
43¾	36½	Air Pr Chm	0.80	1.9	18	2217	42⅝	42¼	42½	+⅛
29¼	23⅜	Airbne Frt	0.30	1.1	19	49	27¼	26⅞	26⅞	-⅛
28	22⅝	Airgas Inc			28	287	25¼	24⅞	24⅞	+⅝
12⅞	8⅛	Airlease	1.64	13.7	7	60	12	11¾	12	+¼
104	99½	AlaPw8 16	8.16	8.1		5	100⅜	100⅜	100½	
25⅛	21⅞	AlaPw PfA	2.00	8.0		11	u25⅛	25⅛	25⅛	

[illegible]

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
11⅞	9½	Salecard	0.16	1.5	9	285	9⅞	9¾	9⅞	
16	14⅛	Saleg'd Sc			8	78	14½	d14⅛	14⅝	
28¾	24¼	SafetyKln x	0.34	1.4	27	2129	24⅞	24½	24¾	+⅜
20¼	16⅝	Safeway			36	868	17⅜	17	17⅛	+¼
4⅝	3⅝	SafewayW95				21	3¾	3¾	3¾	+⅛
40⅞	29⅞	StJoePaper	0.20	0.5	45	68	u40⅞	40⅝	40⅝	−¼
34¾	32	StJoeL&P	1.72	5.4	13	12	32⅛	d32	32⅛	+⅛
76¾	68½	St Paul's	2.72	3.8	7	269	70⅞	69⅜	70⅝	+1⅛
7⅞	2⅞	Salant Crp			0	111	6⅞	6⅝	6¼	+⅛
75⅛	61½	Sallie Mae	1.00	1.6	17	1561	64	61⅝	63½	+1
14¼	13⅝	Salomon Br	1.61	11.7		370	14	13¾	13¾	
32½	28⅜	Salomonlnc x	0.64	2.2	7	1968	29⅜	28¾	29	−⅛
45⅝	42⅜	SanDgo G&E x	2.88	6.8	12	274	42⅞	d42⅜	42⅝	+⅛
3⅞	2⅝	SantaFeEDu	0.40	13.3	25	114	3¼	3	3	
9¼	7	SantaFeERs	0.16	2.1	26	1629	8	7½	7¾	−¼
36⅝	32	SantaFePac	2.75	8.6	10	151	32⅜	d32	32⅛	−⅛
14⅛	11⅛	SantaFeSth			21	1546	12⅛	11¾	11⅞	+⅛
57	49¼	Sara Lee	1.00	1.9	17	1793	52¾	51⅝	52⅛	+½
9½	1⅞	Savm				221	4⅞	4¾	4¼	−⅛
3⅛	⅞	Savin 0.60	0.60	42.7		3	1¾	1⅜	1⅞	+⅛
44⅜	39¼	Scana Corp x	2.66	6.8	11	118	39⅝	39½	39⅝	
47⅞	40⅜	Scecorp	2.72	6.6	12	1568	41⅛	40¾	40⅞	+⅛
68	54⅞	ScheringPl	1.32	2.4	18	4188	57	55¾	55¾	−½
64¾	54½	Sch'berger	1.20	2.1	20	7082	57⅜	56⅛	57⅛	+¼
36¾	29⅛	Schwab(C)	0.16	0.5	26	681	34⅜	33⅞	33⅞	−⅛
8⅞	6¼	Schwitzer			34	39	7⅞	7¼	7⅞	+¼
19¼	15⅞	ScientAtln	0.16	0.9	115	438	17½	17¼	17⅜	+¼
9½	7⅛	Scotman	0.10	1.1	18	414	9	8⅞	8⅞	−⅛
44½	34½	ScottPaper	0.80	1.9	27	2211	43	41⅞	42⅜	+⅝
15⅞	13⅝	ScuddrNAsF	0.18	1.2		103	15⅝	15⅜	15⅝	
9¼	8⅜	ScuddrNEuF	0.30	3.4		195	9	8⅞	8⅞	−⅛
24	18¾	Sea Cont	0.70	3.7	7	48	19¼	19	19⅛	+⅛
7½	6¼	Talley Pf	1.00	[illegible]						
70½	61⅜	Tambrands x	1.38	[illegible]						
15⅛	11	Tandem								
31¼	24	Tandy Corp	0.60	[illegible]						

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4:00 pm prices March 13

NASDAQ NATIONAL MARKET

4:00 pm prices March 13

MONDAY INTERVIEW

Shrimps to global strategies

Minoru Makihara, president of Mitsubishi Corporation of Japan, talks to **Robert Thomson**

'I do think change is necessary'

Contemplating his promotion to president of Mitsubishi Corporation, Mr Minoru Makihara smiles as he considers the blend of skill and serendipity that has carried him from the shrimp import division of Japan's largest industrial group to the helm.

But Mr Makihara, 62, born in Hampstead in the UK and Harvard-educated, has a clear and confident vision of the changes needed at the trading house, including reforms to a management style that has brought Mitsubishi remarkable success.

At the same time, the new president wants to make transparent the often opaque connections of Japanese corporate groups, known as *keiretsu*, and their alleged collusion, which is a matter of serious trade dispute with Washington and European governments. "The mystique should be erased."

For example, Mr Makihara says foreigners have the wrong idea about the monthly meetings of Mitsubishi company heads, whom they perceive to be creating monopolies and cornering international markets. He would like journalists to attend the Friday Club, as the gathering is called: "I will probably be outvoted, but by not disclosing what is happening we build up unnecessary mystique."

As president of Mitsubishi Corp, Mr Makihara will share the inner sanctum with 28 other Mitsubishi men, including the presidents of Mitsubishi Bank, the world's seventh largest, Mitsubishi Heavy Industries, Mitsubishi Motors, Nikon, the camera maker, and Kirin, the brewer. In all, about 190 companies are members of the Mitsubishi family, in relationships characterised by strategic cross-shareholdings and exchanges of executives.

In the case of Nikon, for example, Mitsubishi Trust & Banking holds 8.9 per cent of the company's shares, Mitsubishi Bank, 4.7 per cent, two Mitsubishi-linked insurance companies hold 9 per cent, and Mitsubishi Corp has 1.9 per cent. For Mitsubishi Corp – the core company – the two insurance companies, Tokio Marine & Fire and Meiji Mutual Life, hold 13.9 per cent between them, Mitsubishi Trust 5.3 per cent, Mitsubishi Bank 4.9 per cent, and Mitsubishi Heavy 3.1 per cent.

US trade negotiators claim that these "horizontal" *keiretsu*, by their nature, tend to exclude newcomers, both Japanese and foreigners, by monopolising markets and dealing exclusively with each other. Separately, the US has condemned the "vertical" *keiretsu* – families such as that run by Toyota Motor, which has several layers of sub-contractors supplying parts to the parent company or selling its products.

"I sense that in the US, at least in informed circles, and not necessarily the political circles, there is a better understanding that the horizontal relationship is much looser than the vertical one, and that it is not a relationship that tries to exclude outsiders," explains Mr Makihara, whose unhurried answers are tinged with a gentle irony.

"In this global economy, the closer the partnership you can establish with a company, the better, and it doesn't have to be a Japanese company. The popular word, I suppose, is strategic alliance. Establishing a strategic alliance with Mitsubishi Electric will be as useful as establishing an alliance with General Electric, which we are trying to do."

But the US Trade Representative's office argues that sometimes it is not just the shareholdings, but the psychology of *keiretsu* that makes life difficult for competitors – Mitsubishi people know and prefer to deal with Mitsubishi people, and drink only Kirin beer, not Asahi or Heineken. After a smile, Mr Makihara confesses: "I prefer Budweiser."

Mr Makihara, who will formally take control in June, often uses the word "global", and his own global perspective has come from spending 22 of his Mitsubishi years abroad and 14 in Japan. In 1956, he began in "marine products", which involved overseeing imports of shrimp and tuna, and was transferred in 1959 to London, where he spent eight years. He then returned to Tokyo and marine products.

Since 1985, he has lived in Washington and New York, and in October 1990 was appointed chairman of Mitsubishi International. During that period, Mitsubishi Estate bought a 51 per cent stake in the Rockefeller Group, giving it control over prime New York properties and stirring controversy over a perceived Japanese takeover of US cultural icons. He suggests that controversy is "bound to happen", given the inclinations of "some of the media".

While Tokyo business leaders have noted that Mr Makihara will be an eloquent spokesman for corporate Japan, his first concern is to strengthen the trading house's operations. The appointment, he made clear, was a business decision, not a political response to US criticism.

"It was probably a sense that my understanding of international affairs would be useful in the global economy, and that we have to do more non-Japan oriented business. For example, US-Brazil or US-Russia business, taking advantage of our networks and expertise. I want to open our channels up – New York to Brazil, instead of Brazil to Tokyo, Tokyo to New York and, eventually, New York to Brazil."

PERSONAL FILE

- 1930 Born Hampstead, England. Educated in Japan and Harvard University.
- 1956 Mitsubishi Corp. marine products department.
- 1959 London branch, general trading business.
- 1970 Represented Mitsubishi International in Seattle and Washington.
- 1980 General manager, marine products department, Tokyo.
- 1987 President, Mitsubishi Int'l, Washington.
- 1990 Resident senior managing director for the Americas, Mitsubishi Corp, and chairman, Mitsubishi Int'l.
- 1992 Appointed president, Mitsubishi Corp.

The changing relationships between overseas operations are part of a necessary reform of Mitsubishi management and philosophy, if the company is to ensure its competitiveness in the global market, Mr Makihara says. Delegating authority to offices outside Japan and encouraging Tokyo executives to accept the reduction of their power will not be easy to accomplish. His plans essentially mean an overhaul of the company's entire management structure, as he also intends to replace the promotion path on which merit is often not as important as time-serving.

In changing the culture of the group, which traces its origins and three-diamond logo back to 1870, Mr Makihara admits that he will face strong opposition. Traditional *nemawashi*, or consensus building, will be done to ensure that the changes are neither too fast, nor too disruptive.

"It will take a long time, and probably luck, too. People say that we are like an aircraft carrier, and that it's difficult for us to change direction," he said. "Some Mitsubishi people think that the way we have run the business so far has been successful, so it would be dangerous to change dramatically. I agree with the bit about 'dramatically', but I do think change is necessary."

The success or failure of Mitsubishi's foreign ventures has been closely tied to the character of the individual chosen to handle that project, almost regardless of the project's potential, says Mr Makihara, who regards his "ability to listen" as an important asset.

"We have several subsidiaries and investments in the US. Some are having problems, often stemming from who is running that corporation. To cope with that, we have to adjust our thinking, and not send the person who is scheduled to go, but send in the right person, whether he or she is Japanese, American, British, or whatever."

Mr Makihara, who is in the process of moving back to Tokyo from New York, has enjoyed his time in the US. Apart from detective novels, he likes American theatre and the diversity of US culture. He also has a deep respect for the country's economic prowess and in its "power to recover and return to the right place", a power not much in evidence in recent years.

"In the auto industry, once restructuring takes place, there are definite comparative advantages for US companies. They have a large market, and have more talent compared to a Japanese manufacturer in Japan with mostly Japanese designers. That comparative advantage will show out in the long run, provided the US makers put in a concerted effort."

He also suggests that US executives have an advantage in being able to escape from work concerns. In New York, he sought the company of a "non-business" circle of friends and developed an ability to relax, a quality he would like to cultivate at Mitsubishi Corp.

"In Japan, day and night, you are more or less with business associates. We Japanese have been living in an environment which is very labour-intensive. But we have to change because we are moving into a world that is idea-oriented. Just thinking for 12 hours doesn't necessarily generate a better idea than thinking creatively for one hour."

After the Cold War, economics is king

MICHAEL PROWSE on America

Former President Richard Nixon's denunciation of the Bush administration's policies towards Russia as "pathetically inadequate" captured headlines last week. But it forms only part of a much broader debate about the United States' post-Cold War role. The key question is whether the US will recognise the need to put economics at the heart of future national security policies – a strategy that Japan has quietly pursued for four decades.

The power of the old diplomatic paradigm – which equates national security with military power – was visible last week in a leaked Pentagon policy paper. This argued that the US should seek to prevent any other nation or group of nations from challenging its role as the world's single superpower. The implication is clear: military spending should remain high enough to enable the US to serve as world policeman for the foreseeable future.

An economically oriented foreign policy would justify far more generous aid for Russia, principally as a way to secure US access to a huge new market. But in a world of many rich nations, Mr Nixon's claim that the US has a unique responsibility to preserve Russia's fledgling democracy is diplomatic old-speak – as dated as the Pentagon's grandiose view of the future military role of the US. At a conference organised last week by the Economic Strategy Institute, a Washington think-tank, speakers seemed encouragingly aware of America's need to focus on the economic foundations of national security.

How many great powers will there be in 2000, asked Mr Chalmers Johnson, the Japan scholar. The usual answer is three: Japan holding sway in Asia, Germany running Europe and the US pre-eminent in the Americas. The right answer, he joked, is two: Japan's Ministry of Finance and Japan's Ministry of Trade and Industry.

Mr Edward Luttwak, of the Centre for Strategic and International Studies, made a similar point more colourfully. Prussia, he claimed, had transformed 19th-century politics by inventing the first professional military general staff. In order to survive, other nations had to follow suit and professionalise their war machines. Japan was the modern economic counterpart of Prussia. By creating what amounted to an economic general staff, it had wiped the floor with nations that still relied mainly on *laissez faire* policies. Yet the US understood only the old geo-political rules. The secretary of defence still outranked the secretary of commerce, while General Brent Scowcroft, the president's national security adviser, was clueless on economics.

The critics are making two separate points. The first is hardly controversial: the US's geo-political pretensions directly reduce its economic vitality because they cost so much. At the conference, Mr David Calleo, a professor at Johns Hopkins University, rammed this point home. The budget deficit, he said, was the central economic problem. The only credible way to reduce it was through deep defence cuts; but these would be sustainable only if the US radically revised its military commitments. It could not be world policeman and restore domestic prosperity.

The second point will raise hackles. The reason that the US has nothing resembling Mr Luttwak's economic general staff is that the nation despises civil servants and has been ideologically committed to free markets for decades. With a few exceptions, such as semiconductors, it has avoided industrial policies because "doing nothing" is seen as the best strategy. The question is whether Japan's post-war success, like Prussia's military success in the 19th century, will force a rethink.

Last month, at a seminar run by the Heritage Foundation, a conservative think-tank, Mr Karel van Wolferen, the Dutch author of The Enigma of Japanese Power, argued vigorously that Japan's strengths are badly misunderstood. Western economists attribute its economic success to market forces only because they think liberal policies are a pre-condition for prosperity. In reality, the network of formal and informal links between banks, industrial groups and bureaucrats had erased conventional divisions between the public and private sectors, raising the effectiveness of policies.

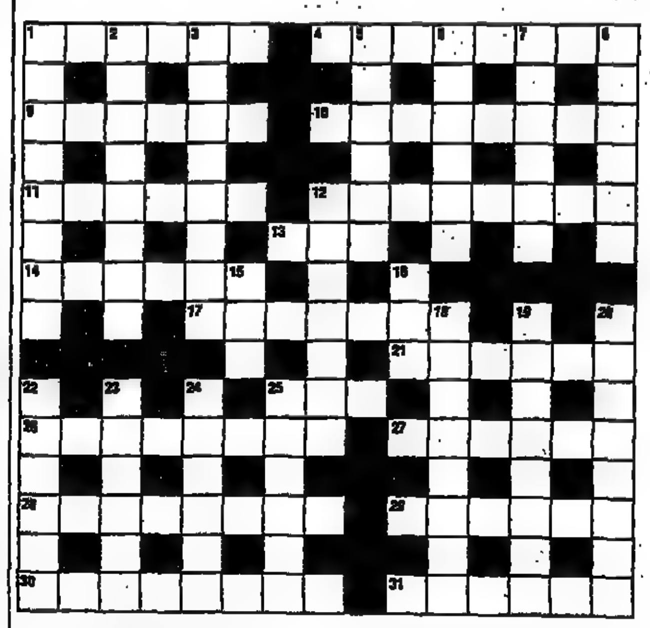
Another Japan expert, Mr Leon Hollerman, a professor at the Claremont Graduate School, argued that a "collusive oligopoly" of bureaucrats and businessmen ran the country and kept foreign policy firmly focused on economic rather than diplomatic goals. Tokyo had moved beyond the suppression of imports and promotion of exports and was now deliberately manipulating the multilateral trade system in a bid to make Japan the world's "headquarters nation". The goal was systematically to reduce other countries, including the US, to the role of satellite economies.

Such fears may prove exaggerated. Much of the US's lack of competitiveness can be cured by domestic initiatives: principally more saving, better education and training and a surer application of commercial technology. But analysts are right to highlight structural differences: Japan may have evolved a form of managed capitalism that will steadily outperform the Anglo-Saxon model. The US will have to experiment with flexible forms of industrial policy – although it is unlikely ever to create an economic civil service of Japanese calibre. But it can learn one lesson from Japan: when the key policymakers – in foreign as well as domestic policy – are motivated mainly by economic considerations, the economy flourishes.

JOTTER PAD

CROSSWORD

No.7,799 Set by DANTE



ACROSS

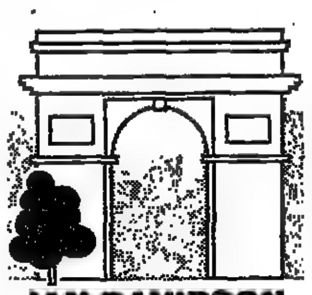
1 Clubs competing over three miles (6)
4 Frequently out of date (3-5)
9 A state and not a method (6)
10 Joint projections over which one may get rapped (8)
11 Oriental sailor left a mark (6)
12 See penal reform in Asian kingdom (8)
13 Blimey! A French horn! (3)
14 A wave that makes a wave (6)
17 Pot pourri of edibles for a French music master (7)
21 Everyone's included in wicked song (6)
25 Endless fruit – but only one vegetable (3)
26 Training cut without hesitation (8)
27 Banger unfortunately goes the wrong way on motorway (6)
28 King and prophet apt to be dependable (8)
29 An illusion of heat (6)
30 Not paying attention in Leeds, she crashed (8)
31 Workers who are constantly striking (8)

DOWN

1 Property master? (8)
2 They are pressed into use when distribution by air is required (8)
3 Girl restrained but persistent (8)
5 He comes across as a false friend (6)
6 It's a sign language, of course (3,3)
7 He should know how to prepare a good meal (6)
8 Relationship between matron and nurse (6)
12 A prospective candidate (7)
15 Material for the local theatre (3)
16 Homespun gin? (3)
18 Anti-mass movement (8)
19 Change at Naples for Nice (8)
20 Errs amid wayward lovers (8)
22 Examine closely for fallen arches (6)
23 Dinner, for example, that is eaten in S. Africa (6)
24 Careless hand (6)
25 David's in the services (6)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday March 28.

New world disorder



IAN DAVIDSON on Europe

The problem with the collapse of communism is that it faces us with the one question we never thought we would have to answer: what do we do now? The familiar and predictable confrontation between east and west simply vanished a couple of years ago; but the policy planners are still thrashing around in search of a new strategy.

In Washington, it now emerges, the debate has crystallised into a straight face-off between negotiators and unilateralists. President George Bush, the traditional internationalist, has advanced the idealistic image of a new world order. But across the river, planners in the Pentagon are advocating a unipolar world, in which the US will make the rules, by force if necessary.

News of the Pentagon paper, as leaked to the New York Times, has set off a mild international kerfuffle, since its prescriptions are deliberately dismissive of the separate interests of America's allies. The president's men have tried to reassure us, by declaring that the Pentagon position is not administration policy. But the fundamental dilemma cannot be resolved that easily, because we still do not know what is administration policy.

In recent months, Mr Bush has been keeping quiet about the new world order. One reason is that the voters do not want to know: what interests them is jobs and economic growth, not some airy-fairy conception of the world after communism. So for the time being, President Bush is keeping his vision thing to himself.

But there is a second reason which is just as compelling: there is not now, and there will not be in any foreseeable time-frame, a new world order. There is a new world, with the disintegration of the Soviet Union; but there is no order, in the sense of a coherent and structured framework for future international policy. Above all, there is no benign order, as Mr Bush has seemed to assert.

With his tract The End of History, Mr Francis Fukuyama has argued that the collapse of communism has united the world behind a new ideological consensus, in favour of market forces and democracy. The thesis has made him famous, but alas, it is palpable nonsense. The command economy may now be irretrievably discredited, but democracy is not yet in favour with those who can get away with autocracy. Ask the rulers of China, Singapore, Morocco, Mexico, Kuwait, Iran, or Pakistan, to name but a few.

The central innovation of the new world is not the revelation of a universal consensus, but the removal of the harsh organising principles represented by the Soviet system and the east-west conflict. There is no reason to assume that these organising principles can be replaced by others which are more benign. On the contrary, the defining characteristics of the new world will probably be disorder and unpredictability.

Mr Pierre Lellouche, a leading French foreign policy analyst, has just published a sweeping survey of this new world * whose subtitle succinctly conveys the message: "From the order of Yalta to the disorder of the nations." This new disorder is by nature not readily amenable to restructuring by governments; moreover, the US is manifestly unwilling to get involved in the restructuring of Yugoslavia, and it is so broke that it cannot provide any serious financial help for the ex-Soviet Union.

When President Bush proclaimed his concept of a new world order, he was evidently inspired both by the belief that the inheritors of the Soviet Union would become the benevolent partners of the west, and by the extraordinary diplomatic and military experience of the Gulf war. That conflict seemed to inaugurate a new era of international consensus between the responsible powers, in which the United Nations would at last fulfil its promise of harmonious international action.

Today, these hopes look hopelessly naïve. The brilliance of the military campaign in the Gulf war has been dismally tarnished by the political aftermath: this is not a satisfactory model for the superior management of the world. And however friendly the inheritors of the Soviet state may be, they cannot contribute to any predictable principles of international order, because their own political system is still in a process of headlong decomposition. What is happening to Yugoslavia is bad enough, but just wait for the disintegration of the Russian federation.

The professional self-interest in the unilateral thesis from the Pentagon is all too transparent: if the US is to be the sole policeman in a unipolar world, it obviously needs a large defence budget. Yet the end of the Cold War means military force will become less important as an instrument of foreign policy, not more.

More fundamentally flawed is the underlying idea that there can be a unipolar world. The US is and will remain large, rich and powerful; but its post-war dominance over the western world was essentially due to the east-west conflict. Today, the western allies no longer depend on the US for survival; so they have less need to defer to US leadership.

The US-led Gulf war was a dazzling show; the post-war follow-up continues to be a slog of collective effort. The US is taking the lead in nuclear arms talks with the Russians; but the real ongoing task is to prevent the unauthorised leakage of Russian nuclear hardware, and this too can only be a slog of collective effort.

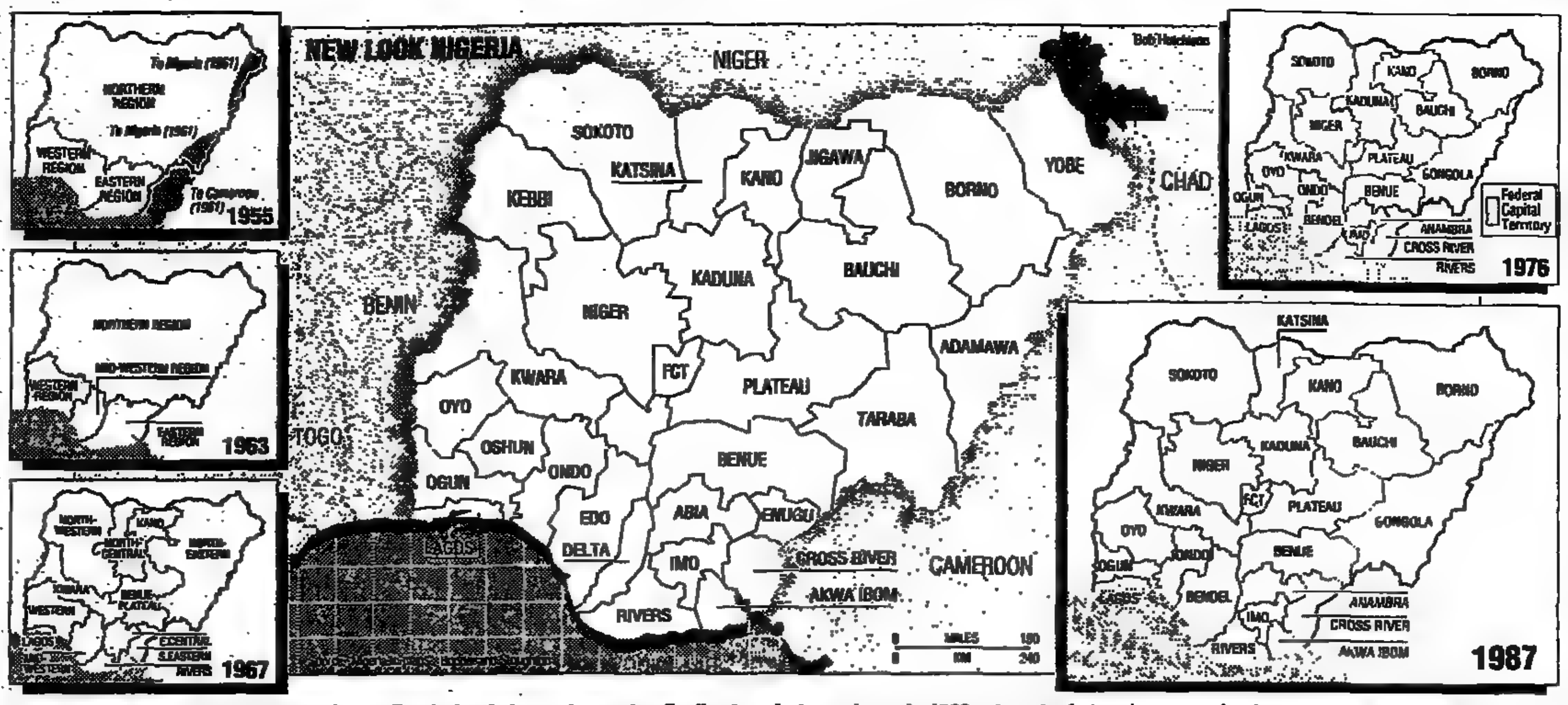
The central issue is not whether the Pentagon, from a position of military strength, can assert and impose its dominance over the rest of the world, (it cannot), but whether President Bush and his successors are prepared to recognise that in the new situation the US must work with its allies on a basis of unfamiliar equality. If there is any meaning in the phrase "new world order", that is it.

* *The Nouveau Monde: De l'Ordre de Yalta au désordre des nations; by Pierre Lellouche; published Grasset; FFr165*

NIGERIA

The floating of the naira is the most radical, if belated, initiative since the recovery programme was launched, writes **Michael Holman**

Risky path to reform



State boundaries within the Federal Republic of Nigeria have changed radically since independence in 1960, when the federation comprised the Eastern, Western and Northern Regions, broadly reflecting the strongholds of Ibo, Yoruba and Hausa-Fulani people respectively, and the quasi-federal territory of Southern Cameroons. But the demand for new states proved irresistible, and on no fewer than five occasions since independence boundaries have been redrawn. The driving forces have been ethnicity (Nigeria has more than 250 ethnic groups), religious differences and decentralisation, but the process has been encouraged by the politicians for reasons of their own. The creation of a new state, with an infrastructure to build and a bureaucracy that offers jobs, has provided valuable patronage for successive governments. The three regions increased to four in 1963 and became 12 states in 1967; more states came into being in 1976 and 1987. On August 27 last year, President Ibrahim Babangida announced the formation of nine new states, taking the total to 30, plus the federal capital territory of Abuja. The changes introduced by President Babangida included the formation of nearly 50 new local government councils, bringing the countrywide total to 500.

IN THIS SURVEY

Editorial production: Roy Terry
Graphics: Bob Hutchison

NIGERIA is facing its greatest challenge since General Ibrahim Babangida seized power more than six years ago. Disliked at home, distrusted abroad, the country's military government is attempting to revive a flagging economic reform programme while implementing a flawed transition to civilian rule.

Events over the next few weeks may well determine the outcome on both fronts. Will the military government buttress this month's bold decision to float the naira, and implement the accompanying tough fiscal and monetary measures as promised? Or will it lose its nerve as consumer prices increase following the naira's plunge from its manipulated official rate of 10.5 to 18 to the dollar?

Either course is painful, although the former offers a way out of the economic crisis; the latter will take Nigeria down the path of Zaire or Zambia.

The decision to float the naira is the most radical policy initiative since President Babangida launched the structural adjustment programme in 1986, less than a year after seizing office in a palace coup. Within 24 hours of Alhaji Abdulkadir Ahmed, governor of the central bank, breaking the news in a nationally-televised broadcast, the 80 per cent spread between the rigged official rate and the market value almost vanished.

Reactions have been muted. Government spokesmen made much of the fact that the easy profits made by many of the smaller banks, who sold their share of the weekly foreign exchange allocations at a wide margin, now go into the state's coffers.

But prices will inevitably rise – how much depends on the effectiveness of a liquidity squeeze – adding to a catalogue of complaints.

Many of the new civilian governors (who took over from their military predecessors last December) are now discovering that they have inherited overspent treasuries and dubious business contracts.

Disclosure of a recent government decision to provide middle ranking army officers with private cars on nominal repayment terms infuriated Nigerians, who have seen their *per capita* income fall from $1,000 (calculated on an overvalued exchange rate) to around $250. "It's as if the army's view of structural adjustment is 'do what we say, not as we do'," says an angry businessman.

But there are many Nigerians who also look with misgivings at the prospect of a civilian government in January 1993.

President Babangida's imposition of a two-party system, both parties created by government with manifestoes written by civil servants, does not inspire confidence that the Third Republic will have firm foundations.

Yet the continuation of military rule would, most Nigerians believe, be the greater of two misfortunes, and the soldiers' renewed commitment to reform is treated with scepticism.

President Babangida, however, will be looking for a positive response from western partners. The devaluation removed the biggest obstacle in negotiations with a visiting International Monetary Fund (IMF) team at one dramatic stroke. No doubt the Fund, like a probation officer confronting a hardened recidivist, will be wary. But most observers believe that a new stand-by agreement could now be in reach, paving the way to further rescheduling of Nigeria's $30bn external debt.

"It was a *coup de théatre*," declared a diplomat, "and the Fund was in the audience." It is evidence, say some observers, that government commitment to Nigeria's reform programme has been restored.

Essential principles have been reaffirmed by the Central Bank governor in his broadcast: fiscal restraint, prudent monetary policies, public sector rationalisation, curbs on state spending. "It is imperative," he declared, "that these actions be taken in order to consolidate and enhance the gains of the structural adjustment programme" – words addressed, one suspects, as much to profligate soldiers as to donors and creditors, anxious for assurance that the past year's drift is ending.

Exchange rate	
Average exchange rate naira/$:	
1991	9.96
Jan/Feb 1992	9.75
March 11, 1992	18.00

But a look at the track record of the military government suggests that caution would be in order. As far as back as February 1986, President Babangida spoke of floating the naira, after delivering a budget that promised a "realistic" exchange rate.

Just under three years later, with inflation running at 50 per cent and the naira overvalued by about as much, government attempted to make up lost ground. The January 1989 budget paved the way to a new agreement with the IMF. Yet one of the key conditions – the establishment of a market rate for the naira – was broken before the ink of the government letter of intent was dry. Looking back, the concessions seemed only to have postponed the inevitable.

Doubt about the government's renewed commitment to reform is based on more than a failure to bite the foreign exchange bullet. There is evidence of mismanagement and wasted resources on a scale that has done great harm to Nigeria.

Some of the most disquieting concerns are set out in a hitherto unpublished World Bank report. It presents the findings of a Bank review of federal government expenditures, carried out in early 1991. The report notes that Nigeria's oil export receipts were some $2bn higher in 1990 than the Bank had been projecting.

Pressures created by raised expectations, demands from state and local governments, and the transition to civilian rule (due to culminate in presidential elections this December) "led to a breakdown in fiscal and monetary discipline during 1990," says the Bank.

The report notes that "the practice of spending oil revenues through dedication accounts and other devices outside the purview of statutory budgetary and accounting controls has re-emerged on a large scale".

The report continues: "Some $1.5bn equivalent of revenues was allocated under ill-defined and poorly documented procedures outside of the normal accounting framework."

These concerns, shared by creditor governments, have yet to be eased. At the very least, they provide grounds for closer monitoring of government policy, both by internal and external agencies, than provided for by current aid and rescheduling terms. One early test of the government's fresh resolve will be whether it continues to support unsuitable projects.

"A large number of projects are far from least cost", points out the same World Bank report, "either because of inappropriate choices of technology or location, or because of overcharging by foreign suppliers." The Ajaokuta steel plant on which $3bn has been spent requires a further $2-3bn for completion, and will be a net loser of foreign exchange even after capital costs are written off. The $1.4bn Ikot Abasi aluminium smelter "has capital costs well in excess of clearly competitive green field plants in other countries", says the Bank report.

Nigeria has reached this critical stage largely through government shortcomings. But the record also suggests that Nigeria's western partners have been prepared to turn a blind eye to policy failures. The motives have been mixed: commercial interests in the booming multi-billion dollar oil and gas sector; a genuine belief in government's good intentions; an equally genuine fear – often exploited by Lagos – that pressure would destabilise Africa's most populous nation.

All will come into play as President Babangida presses his case for external debt relief. He will argue that the success of his reform programme depends on it; creditors will ask whether they can depend on the president to keep the promises Governor Ahmed made on his behalf.

Tony Hawkins assesses the Structural Adjustment Programme

A very partial success

HISTORY WILL rate the Babangida government on its success, or otherwise, in recasting Nigerian politics while restructuring the economy. Within a year of seizing power, General Babangida launched the 1986 Structural Adjustment Programme (SAP), then billed as a two-year exercise.

Nearly six years later, the jury is still out on both the political and economic counts, but there is disconcerting evidence that when the ledger is finally written up, SAP will be seen – at best – as no more than a very partial success.

This does not mean that reform cannot be resuscitated, but unless the government is far bolder in the next nine months than in the past 36, it risks going down in history with the end-of-term report: "Should have tried harder".

A harsh judgment?

How else does one explain the absence of a World Bank lending programme for structural reform, after all the time, energy and money it invested in the late 1980s? How too does one account for the suspension of the IMF programme, following the failure to meet public sector borrowing targets? Above all, it is impossible to explain away ongoing policy shortcomings – exchange rate management, public sector investment, excessive dependence on oil revenues for exports and government revenue, the foreign debt burden and the dismal performance of the public sector as a whole.

Were not all these problems the very ones that SAP was meant to solve? Yet they remain as much a threat to future economic performance today as they were in 1986. Indeed, the experience under structural adjustment illustrates what threatens to become the iron law of sub-Saharan economic reform. The best-framed economic policies falter due to a combination of insufficient political commitment, inadequate administrative capacity and the shortage of external resources.

A kinder judgment portrays the glass as a third full, rather than two-thirds empty, but there can be no escaping the fact that the momentum of early reform during the 1986-88 period was not maintained.

Gross domestic product constant 1984 prices

Year	Nbn
1981	70.4
1982	70.2
1983	66.4
1984	63.0
1985	68.9
1986	71.1
1987	70.7
1988	77.8
1989	83.5
1990	90.4
1991[1]	94.3
1992[2]	95.5

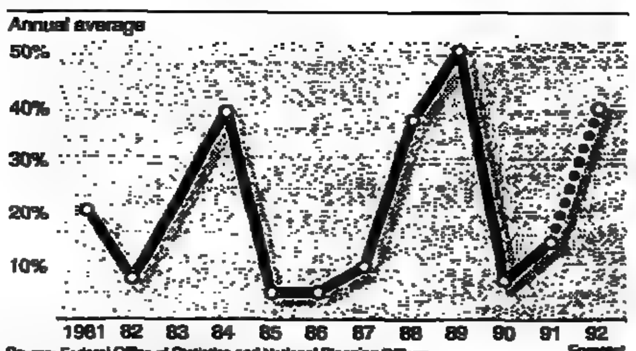
1 Provisional. 2 Forecast
Source: Federal Office of Statistics and National Planning

Domestic public debt (Nbn)

1980	26
1985	40
1987	50
1988	66
1989	81
1990	107
1991	120

Source: Central Bank of Nigeria

Inflation



Source: Federal Office of Statistics and National Planning Offices Forecast

The economy under SAP*

Period	1981-85	1987-91
GDP growth (% p.a.)	0.2	5.7
Investment (% of GDP)	12.0	6.0
Inflation (% p.a.)	17.0	24.0
Exports/GDP (%)	14.3	18.0
Imports/GDP (%)	11.8	3.8
Budget deficit (% of GDP)	5.3	3.7

*Structural Adjustment Programme
Sources: Central Bank of Nigeria, Fed

First in 1988 and then again in 1990-91 public spending lurched out of control and all sorts of non-market distortions were imposed on the system to depress bank lending rates and maintain an unsustainable exchange rate for the naira.

Nigeria's capacity to service its foreign – and domestic – debt while maintaining politically-acceptable levels of public spending depends entirely on the world oil market. In early 1992, with oil prices in retreat and quota cutbacks, an economic crunch is imminent.

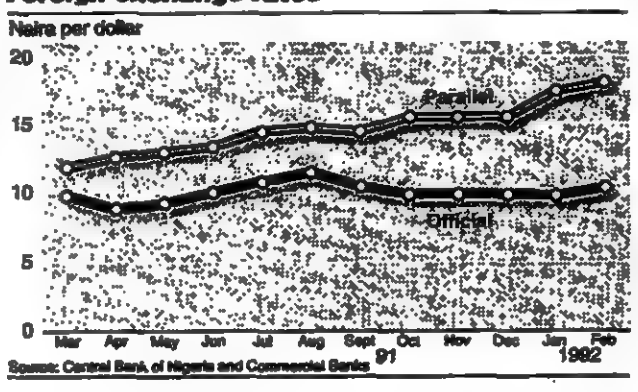
The plight of the new civilian governors who inherited debt-stressed state treasuries and empty bank accounts at a time of crumbling infrastructure highlights the federal government's limited room for manoeuvre.

It is a classic catch-22 dilemma; the government must have a debt relief agreement with the Paris Club of official creditors if it is to hand over a remotely clean balance sheet to the civilians in nine months' time, avoid a debt default and yet another build-up of arrears. To satisfy the IMF, it must merge the "official" and "competitive" market exchange rates, and substantially reduce the budget deficit – estimated at 11.4 per cent of GDP last year. It must also take effective steps to slow inflation and (probably) reduce the domestic petroleum subsidy.

Indeed, the government has already agreed to raise domestic petrol prices to "export parity" by 1994. But officials warn that the political cost of such reforms could be widespread domestic unrest in the run-up to elections, which is in no-one's interest. And even were an IMF deal to be bought for so heavy a political price, only Britain currently supports debt-relief on Trinidad-style terms for Nigeria.

Nigerians point to their experience in the last two rounds of debt negotiations with the Paris and London clubs last year. Not only did they receive less generous terms from the official creditors in Paris than they had hoped but only two of some 400 banks that signed the London Club agreement were prepared to accept the "new money" option, which was subsequently allowed to lapse.

Foreign exchange rates



Source: Central Bank of Nigeria and Commercial Banks

Financial heart of Nigeria: the line-up of banks in Broad Street, Lagos

Picture: Ashley Ashwood

Yet Nigeria continues to attract substantial inflows of foreign direct investment – $1bn a year in the last three years, and more than the whole of sub-Saharan Africa, including South Africa. But offsetting that is the heavy amortisation burden of $3.8bn annually, including last year's net repayment to the World Bank group of some $300m.

Disappointments aside, the glass is still one third full; quantitative measures of SAP's performance must be interpreted cautiously, given the extent to which economic performance is driven by oil market conditions. Output did grow substantially faster in the post-SAP period than in the preceding five years but the former was one of sharply declining oil prices while the latter includes the short-lived Kuwait invasion boom.

Economic growth aside, there are three striking indicators in the table that cast doubt on the success of SAP. As in so many African SAPs, investment underperformed, averaging 6 per cent of GDP as against 12 per cent pre-SAP, while inflation increased. Equally striking is the collapse in imports as a share in GDP, itself a partial explanation of the poor investment record.

Qualitative yardsticks offer greater encouragement; the key achievements of SAP include the abolition of import controls, the deregulation of prices and interest rates, the shift towards indirect techniques of monetary management, the privatisation of 78 enterprises, the commitment to commercialise many others and the partial freeing of the exchange rate. These add up to a very substantial shift in economic policy.

Sadly, there is another side to the coin; Nigeria, ranked as an aspiring middle-income country at the time of the previous handover to civilian rule in 1979, is today the world's 13th poorest country with a per capita income of a mere $250, down from $1,000 in 1980. The social picture is depressing too, with population growth of 3 per cent outstripping food production, job generation and the provision of education and health facilities.

The average daily calorie intake of 2,190 falls 7 per cent below the international standard of 2,350, while infant mortality at 85 per 1,000 exceeds the world low-income average of 70. Sixty per cent of Nigerian children under the age of five years suffer from protein energy malnutrition while government spending on health and poverty alleviation has fallen under SAP.

Yet it is hardly fair to blame SAP; the fact is that resource allocation decisions in Nigeria reflect the control exerted by vested interests. The "toys for the boys" syndrome means shiny new tanks for the military and 300 smart new Peugeot sedans for officers rather than better-equipped schools and universities.

Roads and power infrastructure deteriorate while public funds are earmarked for grandiose projects such as Ajaokuta steel and the proposed aluminium smelter; petrol sells domestically at the absurd price of US4c a litre; there is massive evasion of customs duties and no serious attempt has been made to broaden the fiscal base so that essential public spending can be met from taxes rather than the central bank's printing press.

The upshot has been pain without much gain. It is now too late for the government to do much to alleviate the pain, but it can – and should – finish as it started. In the past fortnight, after nearly two years of policy drift, there are signs of a new determination to complete the job it started six years ago. The decision to abandon the artificial foreign currency auction system and float the naira was a crucial first step towards an IMF deal. On its own, this will not be enough.

The government must raise domestic oil prices to help finance what threatens to be an unsustainable budget deficit this year, cut public spending, clamp down on smugglers and corruption at the ports, and impose more monetary restraint, without which the exchange rate will continue to slide. Such a package ought to satisfy the IMF, thereby opening the door to a Paris Club debt relief deal.

The timetable is tight and the challenges formidable. The military has no more than nine months in which to negotiate a new IMF agreement, secure a debt-relief deal from the Paris Club, stabilise the naira and prevent inflation from soaring above 40 per cent. But there is no viable alternative to a virtuous end-game strategy. The present lame-duck policy of drift – interrupted, if not abandoned, this month when the naira was floated – carried no credibility at all, least of all in the markets where the gap between the official and competitive exchange rates had widened to more than 90 per cent before the military accepted the inevitability of substantial devaluation.

The government has no electorate to face, and nothing to lose by reverting to the policies that were beginning to work in 1986-87 and again in 1990. After all his efforts to recast the political system, President Babangida has no wish to be remembered as the man who bequeathed a poisoned economy chalice to his successors. Floating the naira gives him the chance to go out as he came in, though only if the other shoe, in the form of spending cuts and credit restraint, is allowed to drop.

KEY FACTS

Area	923,773 sq km
Population	109.2m (1989 estimate)*

ECONOMY	1990	1991
Total GDP ($bn)	33.5	32.0
Real GDP growth (%)	8.3	4.3
GDP per head ($)	300	280
Consumer prices (% change)	7.5	15.0
Oil production (m b/d)	1.812	1.893
External debt ($bn)	33.2	33.4
Debt-service ratio (%)	35.7	36.0
Current account ($bn)	5.2	3.5
Exports ($bn)	13.7	10.6
Oil exports (% of total)	97	96.2
Imports ($bn)	4.9	5.1

* Last November's national census is expected to reveal that Nigeria's population is nearer 90m. (See Page 13)
Source: Central Bank of Nigeria, Federal Office of Statistics, IMF and FT statistics

NIGERIA 3

Ministers pleading for debt relief are told to clean up the budget act

Spending peg untenable

WHEN NIGERIAN ministers argue their case for debt relief and access to concessional funds, they are bluntly told that until they clean up their budget act, they cannot expect a sympathetic hearing.

Nigeria's opaque, convoluted and inefficient fiscal system runs counter to the new-found donor criteria of accountability and transparency. Funds are fungible, and donors want to know where and how their aid – or debt relief – is being used.

The 1992 budget is not exempt from this criticism. In his presentation, President Ibrahim Babangida forecast foreign currency revenues of $8.9bn; but budget and planning minister Chu Okongwu predicts earnings of $10.4bn.

Keeping track of revenue and expenditure is almost impossible. The 1992 budget estimates last year's deficit at N19.5bn ($1.9bn), but within weeks of this figure being released the Central Bank of Nigeria published its estimate showing a N33bn shortfall. This 70 per cent discrepancy between two estimates, prepared within weeks of one another, merely compounds donor frustration.

A year ago, the government tabled a balanced budget with expenditure of N38.6bn funded by expected revenues of N38.8bn. The reality was very different. Spending was 76 per cent above target at N68bn, while revenue fell almost 10 per cent below budget, resulting in a deficit of N32.9bn.

Apart from the N3.7bn revenue shortfall, the deficit was largely the result of substantially higher-than-forecast debt-service payments. External debt-service was N18.7bn above budget, accounting for 57 per cent of the deficit. Last year's budget had assumed debt relief similar to that achieved in earlier reschedulings, but the actual outcome was less favourable.

While roughly half the oil revenue accrues to the state and local governments, the federal government remains responsible for their debts. During 1990-91, it tried to collect debt-service payments from the state governments, but this is a slow process, given disagreements over the amounts, exacerbated by the creation of the nine new states. Furthermore, as economic performance began to slip behind IMF-stipulated targets, so aid inflows slowed.

The 1991 deficit was partly funded by drawings from the various stabilisation accounts built up by the government since 1989. These accounts were designed to sterilise "windfall" inflows of oil revenues, resulting from higher-than-budgeted prices and exports.

Because half the stabilisation revenue belongs to the state and local governments, the federal government has been unable to control their spending, some of which was incurred in preparation for state and local government elections.

Budget 1991-92 (Nbn)

	1991 budget	1991 actual	1992 budget
Revenue	38.8	35.1	54.0
Expenditure	38.6	68.0	52.0
Surplus (deficit)	0.2	(32.9)	2.0
% of GDP	–	(11.4)	0.6
External debt-Svc	16.8	35.3	21.7

Source: Central Bank of Nigeria and 1992 Budget

At the end of last year, these stabilisation balances amounted to some N32bn, and when the federal government receives its share along with loan repayments from state governments, the actual deficit is likely to be approximately N15bn, or 5 per cent of gross domestic product.

This year promises to be far more difficult on the revenue side, though – as usual – the ministry of finance bases its revenue projections on an extremely conservative exchange rate forecast of N9.5 to the dollar.

The 1992 budget assumes oil production of 1.8m barrels a day, and exports of 1.43m b/d, with a selling price of $21 a barrel.

Opec quota-cuts and depressed oil prices suggest that not only will there be no windfall this year, but that oil revenue could turn out to be substantially lower than the projected N79bn.

Chu Okongwu: predicts earnings of $10.4bn

Much will hinge on the exchange rate; by last week this had fallen to N18 to the dollar which makes a nonsense of the budget arithmetic. Should the naira settle at around N15 to the dollar this year, as some bankers expect, then oil revenues should still stay ahead of budget, even if the price averages $17 a barrel. Unfortunately, however, naira depreciation is a double-edged sword, because it will also mean significantly higher external debt-service payments.

Alternative budget scenario* (Nbn)

	1992 budget	1992 alternative scenario
Revenue	54	62
Expenditure	52	61
Surplus	2	1

*The alternative scenario assumes an oil price of $17 a barrel, production of 1.60m b/d and a naira/dollar exchange rate of N14

Source: FT statistics

On these assumptions, the budget remains in surplus provided non-oil revenue holds up and public spending targets are met. The N8bn in extra revenue is almost enough to cover a N9bn rise in external debt-service costs.

At the end of the day, neither scenario is likely to apply. There are bound to be spending overruns, if only because inflation is now increasing rapidly; and while there will be a beneficial fiscal drag effect on revenue, the impact on spending will be substantially greater. The budget assumption that public spending (excluding debt-service) can be pegged at 1991 levels, at a time when inflation could well average 30 per cent, is clearly untenable.

Unless the government gets a tighter grip on public spending than in 1990-91, the danger is that the incoming civilian administration will find itself saddled with a sizeable 1992 deficit.

Almost before it gets its feet under the table, it will be forced either to cut public spending dramatically – which will be politically impossible – or to find new sources of revenue.

In his final budget, President Babangida outlined proposals for tax reform, including the introduction in 1994 of a modified value-added tax; but far more will be needed, especially on the revenue administration side, to provide a broader fiscal base, reducing dependence on oil.

Tony Hawkins

The balance of payments constraint will tighten this year

An urgent need of debt relief

LAST YEAR's hopes that higher oil prices and a reduced debt-burden would ease the balance of payments stranglehold on the economy were shortlived.

The re-emergence of the oil glut and the spectre of stalemate with the IMF over domestic economic policy mean that the balance of payments constraint will tighten this year.

Oil exports, which more than doubled between 1988 and 1990, fell sharply last year, when the price of Nigerian crude averaged $18.8 a barrel, compared with $23 in 1990.

A further fall in oil revenues seems inevitable in 1992; the authorities have, as usual, estimated their oil revenues extremely conservatively, at between $7.4bn and $8.9bn this year. These projections cannot be reconciled with the budget assumptions of exports of 1.43m barrels a day and a price of $21 a barrel, which imply earnings close to $11bn.

However, these are fragile assumptions, given the near-term outlook for the world economy and Opec's quota cuts. If exports can be maintained at 1.43m b/d with a price of $17, oil exports would be close to the higher of the two budget assumptions at $8.9bn.

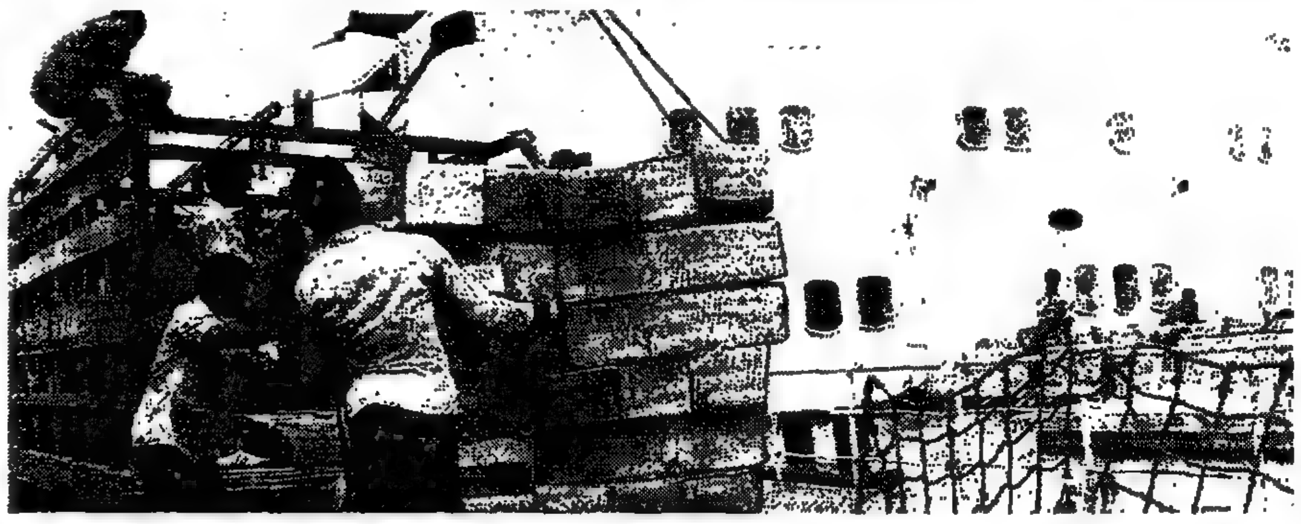
The break-even price for Nigerian oil – that is, the oil price that would enable the country to balance its books without recourse to additional external assistance – is estimated at $23 a barrel in 1992. Since a fall of $1 in the price of a barrel of oil costs Nigeria some $500m annually, the $6 a barrel gap between the break-even price and the widely-forecast 1992 price of $17 a barrel, points to a huge financing gap of some $3bn this year.

Five years ago, the World Bank was projecting non-oil exports well in excess of $1bn by the early 1990s. In fact, non-oil earnings of $425m last year were well below their 1987-8 average of $575m, though the latest Washington forecast projects a surge in non-oil exports, from $650m in 1995 to $2bn by the turn of the century, reflecting the impact of liquefied natural gas (LNG) exports. In fact, non-oil exports are substantially higher than the official figure, because an unknown – but large – volume of cross-border trade is unrecorded.

Balance of payments ($bn)

	1990	1991 (estimate)	1992 (forecast)
Exports	13.7	10.8	9.5
(of which: oil)	13.3	10.2	9.0
Imports	4.9	5.1	5.4
Trade surplus	8.8	5.5	4.1
Net invisibles	−3.6	−2.0	−2.0
Current account	5.2	3.5	2.1
Capital account	−4.4	−3.3	−3.4
Overall balance	0.8	0.2	−1.3
Scheduled debt-service	−6.9	−6.0	−5.8

Source: Central Bank of Nigeria, National Planning Office, Lagos, and IMF



Goods being unloaded in Lagos harbour: further compression of imports is undesirable

Given the lacklustre performance of non-oil exports and the undesirability – if not the impossibility – of further import compression, the Nigerians who, just a year ago, believed they had slain the debt dragon, are now pleading for Trinidad terms for additional debt relief.

Two significant debt-rescheduling agreements were reached last year – one with the Paris Club of official creditors, and a debt-service reduction agreement with the London Club of commercial banking creditors. This covered some $5.8bn, or 17 per cent, of outstanding debt in 1990; and when the agreement was activated in January, Nigeria's foreign debt was reduced by $2bn.

Some 65 per cent of the holders of the bank debt opted to redeem their debt at a discount price of 40 cents in the dollar, while the bulk of the remainder was exchanged for collateralised "par bonds", carrying interest at 5.5 per cent for the first three years and 6.25 per cent for the remaining 27 years of the 30-year maturity period.

In effect, this means that Nigeria has repurchased commercial bank debt with a face value of $3.3bn for approximately $1.32bn – a 60 per cent discount.

Accurate figures for Nigeria's foreign debt are hard to find. The central bank estimated that the country's public (and public-guaranteed) external debt at $33.4bn in October 1991. With the buyback of London Club paper, the debt stock is forecast to fall sharply this year to $29bn.

In spite of this, the debt-service situation is set to deteriorate, with scheduled obligations this year of some $5.8bn and exports of no more than $9.5bn – a ratio of approximately 60 per cent.

Clearly, this is not sustainable, which is why Nigeria desperately needs a Trinidad-terms debt rescheduling agreement. But this is a non-starter without a new IMF agreement, which looks remote at this juncture. Certainly, there was little in the 1992 budget to encourage the hard-nosed men from Washington to believe that Lagos is ready to bite the bullet on the core issues of the exchange rate, the budget deficit and the domestic petrol subsidy.

One source of partial relief has been the substantial inflow of foreign direct investment, which has averaged $800m annually over the last five years. Virtually all of this is targeted on the energy sector, but it has played its part in offsetting at least some of the onerous burden of loan repayment outflows, which averaged $1.6bn a year over the same period.

As a result, the world's 13th poorest country has been a net capital exporter to the tune of $4bn a year since the structural adjustment programme was launched in 1986, underscoring yet again the urgent need for debt relief.

Tony Hawkins

IMF negotiations will be important for the economy

Tighter monetary and fiscal stance needed

ECONOMIC performance this year will – as always – depend primarily on oil prices, though the outcome of the current IMF negotiations will also have far-reaching implications. Nigeria's 1990 International Monetary Fund standby agreement in effect lapsed last year when domestic credit ceilings were overshot.

Since Nigeria does not draw on its fund facility, the main importance of the current talks to secure a new standby is access to Paris Club debt relief. Without the IMF imprimatur, not only will there be no debt relief but funding big forthcoming projects, such as the $4bn needed for the liquefied natural gas scheme, will be well-nigh impossible.

The fund programme fell apart because domestic credit rose 42 per cent last year to N75bn, compared with an IMF-agreed target ceiling of some N52bn. That was the result of a 26 per cent increase in private sector credit and almost 70 per cent in government borrowing. An immediate consequence was a widening of the gap between the official exchange rate and the parallel market from 25 per cent in early 1991 to more than 90 per cent by February this year.

Without the IMF imprimatur, not only will there be no debt relief but funding big projects will be well-nigh impossible

By floating the naira and abandoning the artificial rate of N10.5 to the dollar, the Nigerians have taken a decisive step towards a new Fund agreement. At the first "free" auction, the rate plunged to N18, though bankers speculate that as and when liquidity is squeezed, there will be some recovery possibly to N15 or N16 to the dollar.

But the IMF is going to want a good deal more, insisting that without public spending cutbacks and a tight money policy, excess demand for foreign exchange will continue to undermine the exchange rate.

Last week, a new tranche of stabilisation securities was issued taking an estimated N4 billion out of the system and with the first post-float auction draining at least N10 billion from the banks, money market liquidity has tightened considerably.

But the Nigerians, deeply concerned at the political implications of new stagflationary measures – naira devaluation and increased petrol prices, if the domestic petrol subsidy is phased out as demanded by the IMF, will mean higher inflation later this year – have precious little room for manoeuvre. They hope the IMF will take a lenient view, but its bottom line will still be a far tighter fiscal and monetary stance than at present, in addition to exchange rate liberalisation.

All of which means that if a debt crisis is to be averted, economic growth must slow,– even further than the oil price-induced recession – and interest rates rise as liquidity is squeezed.

With such a scenario, growth would fall from 4.3 per cent last year and more than 8 per cent in 1990, to no more than 1 to 2 per cent in 1992. Lower oil prices are already having an impact on economic activity while industrialists complain that capacity utilisation is falling once again, and profits are being squeezed by higher import prices and interest rates.

Inflation, which reached 20 per cent at the end of 1991, averaging 15 per cent over the year, is set to move well above 30 per cent in the first half of 1992 as last year's monetary excesses and naira depreciation take their toll of retail prices.

Even with an IMF package, inflation is likely to double to around 30 per cent this year. Without one, it will be substantially higher – at least 40 per cent.

The balance of payments outlook hinges on oil and debt; the 1992 foreign exchange budget projects total earnings of $8.9bn, of which $7.4bn would be oil revenue. This looks to be unduly low since, with a price of $18 and exports of 1.43m barrels a day, revenues would come close to $9.4bn.

The budget allocates $2.3bn for external debt-service (30 per cent of "official" export earnings of $7.4bn), but since this is well below the $5.8bn in scheduled obligations, the assumption must be either that the authorities expect to conclude a debt-rescheduling agreement by the end of 1992 or that oil earnings will be substantially higher than forecast.

In 1992, the provision of only $4.25bn to fund non-oil imports – less than last year's $4.5bn – will constrain investment and output growth, while maintaining upward pressure on prices. Given the binding nature of the import and debt-service constraints, the only option open to the authorities for stabilising prices and the exchange rate is demand management. But after four years in which real private consumer spending has been growing at less than 1 per cent while population increases at 3 per cent a year, it is hardly surprising that the government should be so reluctant to tighten its policy stance when output is already flagging.

Inflation, which reached 20 per cent at the end of 1991, is set to move well above 30 per cent in the first half of 1992

If the authorities are serious about letting the naira find its own level, there is now no alternative to decisive action on both the monetary and fiscal fronts, but especially the former.

If this is done, then an IMF agreement, and probably also Paris Club debt relief, are within the government's grasp. But time is not on the government's side, and if there is to be a debt agreement this year, the Nigerians must settle their differences with the IMF by July at the latest.

Tony Hawkins

The banks must become more professional, writes **Tony Hawkins**

Why the cap did not fit

TEN YEARS ago, a Nigerian import permit was a licence to print money. In the early 1990s, industrialists say sourly, banking licences have assumed that role, primarily because a five-tier foreign currency market provides endless opportunities for profitable arbitrage.

Bank licences, issued so freely in 1989 (16) and 1990 (25), were cut off last year, though not until another 14 banks had been approved, taking the total to 120. Although the central bank (CBN) opposes the issue of new licences, so intense is the political pressure from vested interests that a further round of licence approvals is expected soon.

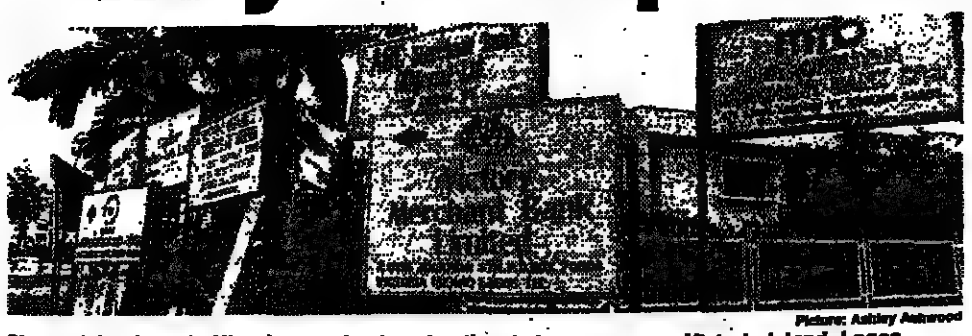
Until this month, the newer banks continued to thrive against a background of rapid credit expansion and the wholly-artificial foreign exchange auction system in which all are winners.

Before the naira was floated in the first week of March, all 120 banks quoted the same buying rate. The $60m available weekly was allocated among them on a pre-determined basis, which entitled the big three clearers – First Bank of Nigeria, United Bank for Africa and Union Bank of Nigeria – to $2.5m each. A second tier of half a dozen banks got $1.1m each, while at the other end of the spectrum, about 60 of the newer, small banks were each allocated $242,000.

This combination of guaranteed access to foreign currency, a generous spread between deposit and lending rates – estimated at six percentage points last year, down from 7.3 points in 1990 – and easy access to funds, reflected in rapid money supply growth, enabled many banks to report improved earnings last year. But for some – notably the largest banks – the imposition of prudential guidelines translated into a steep decline in profits.

Last year, Union Bank's assets rose more than 40 per cent to N13.2bn ($1.3bn), but its profits collapsed to N14.4m from N127m in 1990 while at UBA profits fell almost N100m to N16.7m. Although UBA more than doubled net earnings to N407m from N186m in 1990, the guidelines meant bad debt provisions of N390m compared with only N68m the previous year.

Most of the older banks were forced to make similar, if less dramatic, provisions. The blame for these should not be laid at the door of the bankers. The fact is that the mature banks have long been treated as a kind of political football – their chief executives appointed and removed by federal and state governments and the quality of their loan portfolios undermined by politically-dictated lending.



Picture: Ashley Ashwood

Signs of the times in Nigeria: new banks advertise their presence on Victoria Island, Lagos

The young banks have the edge in several respects – very little political intervention, and much smaller, more manageable workforces and loan portfolios. Furthermore, they have not been in business long enough to get themselves into the kind of problems that now threaten the viability of some of the state-owned banks.

Deregulation, which began in 1987, was partially reversed last year when, in an effort to lower the cost of borrowing, the central bank imposed a cap of 21 per cent on lending rates. It soon backfired; in a system where credit is controlled by way of lending ceilings on banks (except those with advances of less than N50m), credit growth overshot the official target of 10.6 per cent growth by a huge margin, reaching 42 per cent.

While some mainstream banks stuck to the 21 per cent cap, many others did not, using front-end fees, commissions and other non-interest charges to lever up their effective return. The authorities ended up the worst of all worlds, positive real interest rates in excess of 20 per cent in the first half of 1991 while money supply was out of control, expanding more than 38 per cent.

In January, the CBN abandoned the cap – which it had always said was only temporary – but is now trying to squeeze the spread between a bank's cost of funds and its lending rate to 5 per cent. As a result, prime rates have risen to around 23 per cent for the commercial banks and 27 per cent for merchant banks.

Bank credit (Nbn)

Year	Private sector	Government sector	Total
1985	13.7	19.0	32.7
1986	17.4	19.4	36.8
1987	19.8	22.3	42.1
1988	25.1	27.0	52.1
1989	30.8	21.6	52.4
1990	36.6	30.4	67.0
1991[1]	46.0	50.0	96.0

1 Provisional. Source: Central Bank of Nigeria

Number of Banks

1980	28
1985	40
1987	50
1988	66
1989	81
1990	107
1991	120

Source: Central Bank of Nigeria

With the year-on-year inflation rate having climbed sharply from 5 per cent in the first quarter of 1991 to 20 per cent by the year-end, real deposit rates are now negative, and the same will soon be true of real lending rates. The signs are that inflation will accelerate rapidly during 1992, mainly in response to last year's excessive credit creation and the resumed slide of the naira.

A year ago, the CBN set targets of 10.6 per cent for credit expansion during 1991; because the budget was meant to be in surplus, there should have been no public sector borrowing from the banks, while the ceiling for private sector credit provided for growth of 13.2 per cent growth. In the event, government borrowing surged 69 per cent during 1991 while private sector credit was up 26 per cent.

In an effort to curb inflation and stabilise the exchange rate, the CBN says it will tighten monetary policy in 1992. The private sector credit growth target has been raised to 16 per cent "to provide an appropriate stimulus to the economy".

With the public sector borrowing ceiling raised 7.7 per cent, aggregate credit growth is projected at 12.5 per cent – up two percentage points on last year's target, but well below the 42 per cent actually experienced. But credit creation is not going to slow down unless public expenditure – and inflation – are brought under control. Private sector borrowing is rising sharply as working capital requirements increase with inflation and devaluation.

During 1992, the CBN is committed to shift increasingly from direct controls to market-oriented techniques for controlling the supply. The abolition of the interest rate cap was a first step in this direction, as was the requirement that banks now hold 20 per cent of their deposit liabilities to the public in treasury bills and certificates.

Other instruments of indirect monetary control to be used more actively during 1992 include the 30 per cent liquidity ratio, including treasury bills, and the 3 per cent cash reserve ratio. The CBN plans to expand its open-market activities and to that end – much to the disgust of some bankers – is calling for the creation of a discount market with up to five discount houses, operating on the London model.

In spite of their distaste for discount houses – which banks see as an unnecessary intermediary – some of the top banks are getting together to establish a discount operation and the CBN hopes that at least three discount houses, which it sees as essential cogs in the wheel of indirect monetary management, will be open for business within a few months.

The much-predicted shake-out and rationalisation of the banking system will not materialise – bankers say – unless and until the foreign currency market is reformed. If the naira float is even remotely clean, then the new banks are going to face a far tougher competitive environment. In the past they relied on guaranteed access to foreign currency both as a source of profit and a vehicle for attracting deposits. Precisely how the CBN is going to manage the new system is unclear but it appears that it will sell dollars to the market - not necessarily on a regular basis - at market-determined rates. The conventional wisdom is that in the short-term, the naira will stabilise around N15 or N16 to the dollar, but the medium-term prognosis for the currency is grim, with substantial further devaluation probable in 1993/4.

Few of the new banks have a deposit base worthy of the name, implying that with the liberalisation of the foreign currency market they will be have to rethink their tactics. This will not be easy at a time when tight money will be the order of the day.

Three developments will sort out the men from the boys over the next couple of years – a competitive foreign exchange market, monetary restraint and indirect monetary management. As and when these measures take root, so banking in Nigeria will become more professionalised and traditional virtues, such as a large deposit base, will start to count once again.

Nigerian investors are steering clear of manufacturing

Drive for local sourcing

NIGERIAN businessmen, complains a senior government official, "are not yet ready to invest in manufacturing – they prefer fast-moving, high-return activities."

This is hardly surprising. The incentive system has long favoured trade over industry, and imported components for assembly rather than local sourcing.

Structural adjustment and naira devaluation were meant to change all that, but progress has been disappointing. In a recent report, the Manufacturers Association of Nigeria (MAN) notes gloomily that the extent of local sourcing still falls "far short of expectations". In the first half of 1991, MAN estimates, 47 per cent of raw materials were sourced within Nigeria – primarily non-metallic minerals such as cement, food, textiles and wood. These four sectors had local sourcing ratios in excess of 70 per cent, while the remaining six averaged 33 per cent.

This year, the search for backward integration is being stepped up by the Raw Materials Research and Development Council (RMRDC), launched by the government in 1987. It is setting up five small model plants to process cocoa, kaolin, talc, phosphate rock and soda ash. The council says it is following Japan in establishing "catalytic" plants, designed to demonstrate that the use of local raw materials is both feasible and profitable.

The plants, financed by the council at a cost of $5.5m (the RMRDC draws its financing from a 1 per cent government levy on imports) will come on stream in the latter half of the year. Once markets are established and the projects are seen to be working, the council will sell them to private investors. Already, a large Nigerian investor, the Leventis group, has shown interest in the soda ash plant, which is a potential source of supply for its Coca-Cola bottling operations.

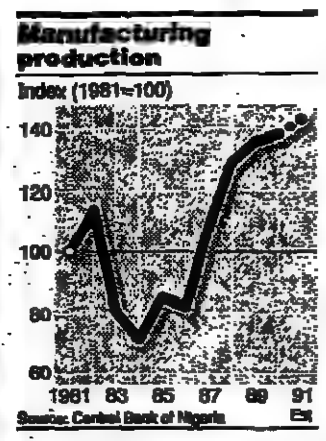
The catalytic plant project is one of three council initiatives designed to boost local processing and exports. It has also set up 28 investor groups, to investigate a broad range of projects utilising local materials.

The RMRDC funds the feasibility studies, providing details to investors who sign a letter of intent to proceed with the scheme. The third prong is an export drive for non-traditional products such as gum arabic and ginger, in which Nigeria has a competitive advantage. The council plans to launch a marketing drive in the UK later in the year.

There is more to local sourcing than economic nationalism. In metals, one industrialist says it is simply not profitable to operate with an import component that far exceeds 50 per cent of the final retail price. In foods and in beer, the switch from imported to local cereals has worked to the advantage of the multinationals such as Nestlé, Cadbury Nigeria and Guinness. The combination of the active search for local inputs, promoted by the RMRDC, and further steep depreciation of the naira will enhance the viability of backward integration on the one hand and non-traditional exports on the other.

Lever Brothers is one of the most active multinationals in the field of local sourcing, tackling the problem on several fronts. It has invested N150m ($14.8m) in a 90-hectare tea plantation on the Mambilla plateau in the north-east, and has plans to expand the project to cover 500ha. Although it was keen to buy one of the privatised palm plantations, this was not possible, and so a trade investment strategy has been used.

Guinness plant: switch to local cereals has proved beneficial



The country's largest user of palm oil, Lever has a 20 per cent stake in one of the plantations and has put some of its management into the scheme, with the result that output has doubled in the last 18 months.

Another strategy is to provide technical assistance to small and medium-sized businesses producing essential inputs such as chemicals or packaging materials, in return for buy-back agreements under which Lever purchases its input requirements locally rather than relying on imports. A member of the board is responsible for searching out local sourcing prospects and developing backward integration opportunities, especially in agriculture.

Devaluation has certainly boosted industrial exports, which rose from $8m in 1985, before the naira was floated, to more than $80m last year. But exactly how much is being exported is not known, with estimates ranging from 10 per cent to as much as 30 per cent of total turnover in an industry such as textiles. Industrialists say that the renewed weakness of the naira has boosted unrecorded exports, especially into neighbouring CFA franc zone countries where Nigerian goods are highly competitive.

There is substantial unrecorded two-way cross-border trade in manufactures, with smuggled imports undercutting local manufactures and legal imports. "Unofficial" exports are, in fact, directly competitive with legal exports of Nigerian manufactures. "We are undersold by our own products smuggled into neighbouring markets," says one manufacturer.

But there is little doubt that manufacturing industry has underperformed in recent years. Its share of gross domestic product fell from a high of 11 per cent in 1981-82 to an estimated 8.3 per cent last year. Manufacturing value-added (MVA), at constant prices, declined almost 30 per cent between 1982 and 1986. It has since recovered almost all the lost ground, but the fact is that real industrial output last year was no higher than 10 years ago.

While official figures suggest that capacity utilisation is no more than 38 per cent of installed capacity, industrialists emphasise that the effective capacity has declined substantially in recent years. Actual capacity utilisation figures are believed to be closer to 70 per cent in most activities, according to one industrialist, though there are sectors, such as vehicle assembly, where utilisation is 20 per cent.

Official estimates by the Central Bank of Nigeria put cumulative foreign private investment in manufacturing between 1970 and 1988 at N3.6bn, or one third of the total.

Nigerian manufacturing desperately needs injections of foreign capital and technology if it is to break out of its existing straitjacket of import-dependence. But with new investors required to submit more than 180 pieces of paper and deal with umpteen different government agencies in Abuja, Lagos and the state where the investment is located, manufacturing is unlikely to attract many new entrants.

Asian businessmen, especially from India, are showing more interest than their EC or US counterparts, though in recent years three multinationals have taken the plunge. They are: Coca-Cola; General Motors (a 30 per cent stake in a joint venture with UAC, a Unilever associate, to assemble commercial vehicles); and, still in the pipeline, Rothmans. Other multinationals reportedly taking a fresh look at Nigeria include Procter and Gamble and Colgate-Palmolive, though they, and others, are likely to await the outcome of the political transition before committing themselves.

Tony Hawkins

Tony Hawkins assesses business profits

True picture distorted

ALTHOUGH REAL gross domestic product has increased by a third in the past four years, Lagos businessmen say that trading volumes have fallen in many activities, especially consumer goods.

It has become progressively harder to make profits in the domestic market, other than by efficiency gains, cost-cutting and poaching market share.

In the consumer-goods sector, large companies report a fall in volumes at the top end of the market, but a compensating increase for lower-priced items. Consumers are "down-trading", switching from detergents to laundry soaps, and from larger to smaller (and cheaper) packages.

There is evidence, too, of slackening demand from the packaging industry. Official statistics suggest that, since 1988, private consumer spending has barely kept pace with inflation. Many shoppers have moved downmarket, too, to lower-priced items or into the informal sector.

Nevertheless, the pre-tax earnings of publicly-quoted companies have powered ahead, rising 27 per cent last year, after a 29 per cent rise in 1990 and more than 60 per cent in 1989.

When deflated by the composite consumer price index, real turnovers have risen 37 per cent over the past seven years, while pre-tax earnings have increased by almost 85 per cent.

In fact, a retail price index – especially one heavily weighted with downmarket basic necessities – is no way to measure real business performance. A better yardstick is failure of naira earnings to keep pace with currency depreciation.

In 1984, N1m of profits translated into $1.3m; but, by the end of 1991, the same naira earnings were worth little more than $100,000. In other words, while the pre-tax profit index rose almost fivefold to 494 by 1991, when converted into US dollars, the index actually halved over the period.

Both turnover expansion and profit growth slowed during 1991, reflecting the fall in inflation in 1990-91 and tougher business conditions. Turnover was up 32 per cent last year, down from 37 per cent in 1990 but still well ahead of the trend rate for the past seven years of 22 per cent. Profit growth slowed slightly, from 28.7 to 26.7 per cent, but this, too, stayed just ahead of the trend growth rate of 25.6 per cent. Margins (pre-tax earnings as a percentage of turnover) narrowed to 11.9 per cent during 1991, dipping below the eight-year average of 12.5 per cent.

Corporate performance index

Reporting year	Turnover	Pretax profits	Price index	Margins (%)
1984	100	100	100	12.7
1985	102	130	104	16.2
1986	109	133	111	12.5
1987	128	156	121	12.3
1988	166	187	170	11.0
1989	227	303	253	11.2
1990	311	390	275	12.4
1991	410	494	300	11.9
Trend 1984/91 (% pa)	22.3	25.6	17.0	12.5

Source: FT statistics

For most large businesses, access to foreign currency remains the key to profitability. Over the past year, profits have been squeezed by the combination of consumer resistance on the one hand and rising costs of imported inputs on the other.

Although, the official rate for the naira depreciated only modestly during 1991 – from 12.4 US cents to 10.6, a fall of about 15 per cent – the real cost of foreign exchange rose sharply. This was because companies were unable to get much more than 10 to 20 per cent of their foreign currency requirements from the official (first tier) market. Instead, they had to buy their foreign exchange at various different premia from literally dozens of banks.The naira float will change that but only at the expense of higher inflation.

Turnover expansion and profit growth slowed during 1991

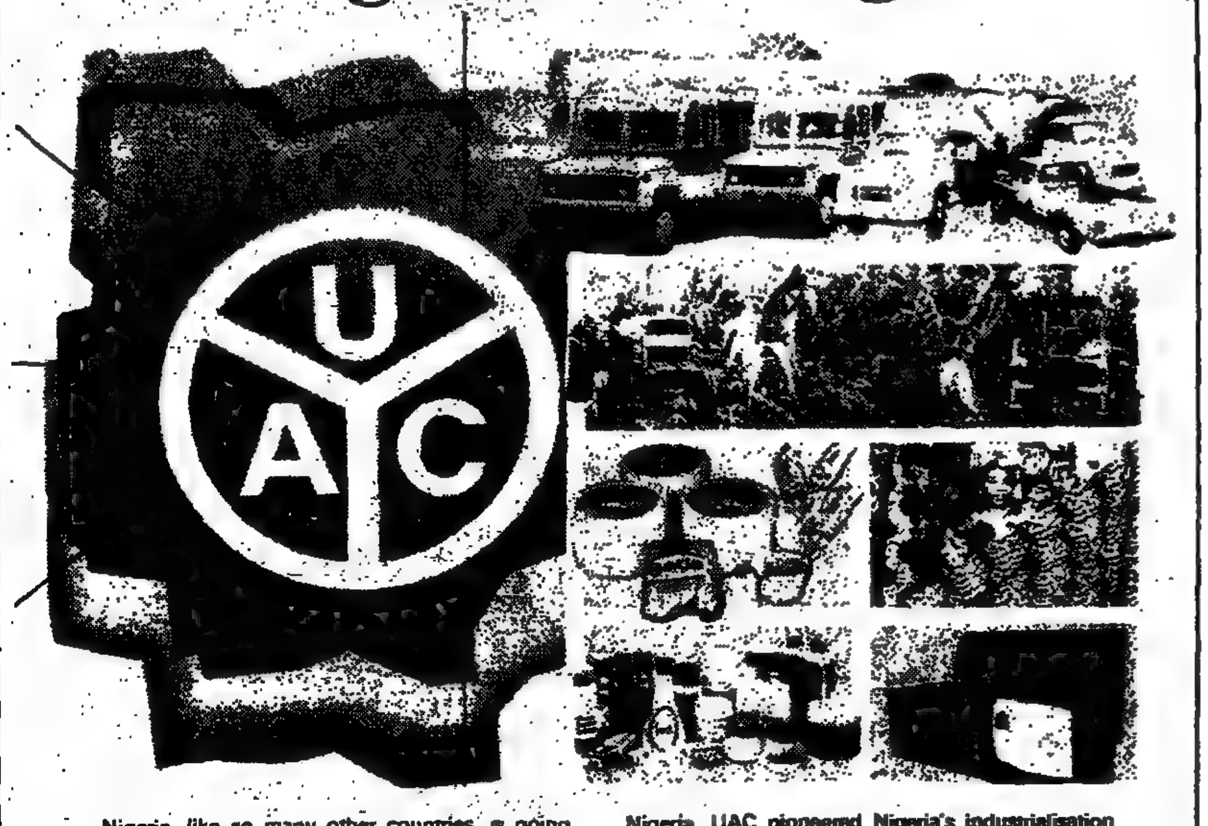
One of Nigeria's largest companies says it maintains accounts at more than half the country's 120 banks. Until devaluation early this month, the true cost of funds was somewhere between the previous official rate of N10.5 to the dollar and the competitive rate, quoted by the banks for earnings from non-oil exports and other inflows, of N18 to N20. Assuming an 80-20 split between free market and official markets, companies were paying in the region of N16 to the dollar.

The widening gap between the two markets in the first ten weeks of 1992 and subsequent devaluation will mean sharply higher inflation in this heavily import-dependent economy.

Between them, last year's rapid monetary growth and devaluation spell rapid inflation in a market where import cost-plus pricing is the norm. Business economists believe inflation is already running at 30 per cent – double last year's officially-estimated 15 per cent – and predict gloomily that it will reach 50 per cent this year, unless the authorities tighten credit and rein in the free-market exchange rate soon.

But when – rather than if – that happens, the official rate will have to be allowed to find a more "competitive" level, perhaps around N14 to the dollar.

All this is playing havoc with business costs. One big importer says it takes six to eight months to convert foreign exchange into delivered imports. He estimates his working capital requirement at 30 per cent of turnover, compared with 12 per cent in European markets. This is going to mean tighter margins and slower profit growth during 1992, though inflation will continue to make corporate results look better than they really are.



Privatisation has slipped behind the timetable

Unfinished business

ANY SUGGESTION that Nigeria's ambitious privatisation programme is stalled is hotly denied by the national privatisation agency, the Technical Committee on Privatisation and Commercialisation (TCPC). Its spokesman says firmly: "We are on track to finish the programme by the end of the year."

But there is no getting away from the fact that the programme has slipped way behind its original timetable and should have been completed by now. Nigerian Airways, for instance, should have been sold by mid-1991 but officials now say it will definitely have gone by the third quarter of 1992.

To date, 78 enterprises have been privatised – compared with 71 a year ago – and N1.6bn raised from the sale of state-owned enterprises. The target is to sell off another 30 before the end of 1992 which, if all goes to plan, will push privatisation proceeds over N3bn.

The real test is yet to come in three respects: first, with the "easy" sell-offs behind it, the TCPC now has to tackle the heavies such as Nigerian Airways, the federal government's stake in six vehicle assembly plants, the Nigerian National Shipping Line, the National Paper Manufacturing Co and the three steel rolling mills.

In an effort to speed up the process and improve the prospects of selling off large, often highly unprofitable enterprises, the TCPC has changed its strategy. Three of the most recent sell-offs, including the $50m sale of the Lagos Federal Palace Hotel, have been on a deferred public issue basis. This technique is being used where a parastatal has a strong asset base but poor operational results that preclude it being offered to the public through the Nigerian Stock Exchange. The TCPC identifies "core group" investors to whom it sells the equity on the understanding that a substantial shareholding will be offered to the investing public within a stipulated period.

In the case of the Federal Palace Hotel complex in Lagos, five interested buyers, including Daewoo of South Korea submitted bids, but the hotel went to the Nigerian-owned Ikeja Hotels which agreed to pay $26m before the end of March 1992 with the balance, plus interest at 1 per cent above the minimum lending rate, payable over five years. The buyer has agreed to sell 40 per cent of the equity in the Federal Palace within five years by way of a public offer to Nigerian investors.

A similar technique was used in the sale of the 60 per cent government-owned Nigerian Engineering Construction Co (NECCO), though in this instance the National Provident Fund, which is about to embark on a large home-building programme with an initial investment of N100m at the new capital, Abuja, bought the government's stake for N35.9m. Within five years, it is to offer 20 per cent of the shares to local investors.

The second looming challenge is that of commercialisation where very little visible progress has been made. A year ago, the TCPC said it expected to sign management contracts with 30 state enterprises during the first quarter of 1991. The target date for the signings is now March-April 1992. A TCPC spokesman says: "We are fine-tuning various reform packages and five-year corporate plans" for a broad range of public utilities, including the Nigerian Railway Corporation, the National Electric Power Authority (NEPA), the NNPC and the telecommunications authority, NITEL.

Telecommunications are to be deregulated to allow private sector companies to compete with the state-owned NITEL. NEPA's electricity distribution activities are to be privatised and the Nigerian Mining Corporation has been instructed to stick to its knitting and sell off non-core activities, such as brickmaking and ceramics.

NITEL is expected to retain control of telecommunications switching and transmission equipment along with the existing infrastructure, but specific business services, (such as cellular phones, satellite-paging networks, digital overlay networks) will be opened up for private sector participation.

Another possibility is that of allowing equipment suppliers to take some of the equity in telecommunication activities in those regions where the supplier's equipment is dominant. This would open the door to equity participation by international groups such as Siemens, ITT and Marubeni, though just how keen they are to take an equity stake is unclear. There are several other parastatals where there is scope for core group investor participation by either foreign or domestic investors, including Nigeria Airways, the Nigerian National Shipping Lines and the Nigerian Railway Corporation.

The TCPC, which is to disband at the end of the year, has recommended the creation of a successor body in the form of an Enterprises Monitoring Bureau. This would operate as an independent regulatory authority monitoring the performance of those parastatals which the state will continue to own.

The third challenge arises from the uncertainties surrounding the return to civilian rule at the end of the year. Given past slippage, it seems almost certain that a number of significant privatisations will be left to the next administration to handle. But if the TCPC does disband, there can be no guarantee that the incoming government will complete the programme.

However the civilians play their cards, it will be some years before a realistic assessment can be made of the contribution of public sector restructuring to enhanced economic efficiency. Nearly six years into SAP, the public sector continues to be a drag on development.

The TCPC's initial success in selling the government's minority holdings in commercial and industrial businesses managed by joint-venture partners was the easy part of the exercise. The hard part will be finding core group buyers for the likes of Nigerian Airways, the steel mills and vehicle assembly plants.

Similarly in commercialisation, signing management contracts is the easy part – getting them to stick will be another matter altogether, especially with a civilian administration tempted to treat parastatals as a vehicle for political patronage.

Tony Hawkins

Ecobank sponsors venture capital fund targeted at medium-size business

Welcome boost for private enterprise

FOSTERING private enterprise is one area of African economic endeavour where there has long been more talk than action.

That is why plans to set up a west African venture capital fund targeted at medium-size business have been welcomed by entrepreneurs and governments. The proposal is the more welcome because it is unashamedly profit-motivated, and envisages a close link between equity investment and managerial advice and assistance provided by an independent management company.

The fund, Ecoventures, sponsored by Ecobank, which operates in five West African countries, plans to invest in, *manage and then divest high-growth,* medium-scale indigenous businesses.

Later this year, the sponsors hope to raise $20m, the bulk of it from institutions and high net-worth individuals in the five target countries – Nigeria, Ghana, Benin, Côte d'Ivoire and Togo. The target is to raise $5m from donors or investment companies such as the Commonwealth Development Corporation, $10m from African institutional investors (pension funds, insurance companies and multinationals) and the remainder from rich people.

Regional diversity is important, with the sponsors anxious to avoid accusations of Nigerian domination from neighbouring states which are hypersensitive on this issue.

Ecoventures will invest in a range of

> Ecoventures will invest in a range of high-growth – and high-risk – activities

high-growth – and high-risk – activities with assets of up to $1m. The trick is to catch a business near the start of its growth curve and achieve above-average returns. Such projects are easier to find than is often suggested: some successful African businesses show internal rates of return of 50 to 120 per cent – adequate to compensate for the likely combination of high inflation and currency depreciation.

The key to such funds is the exit process. Ecoventures sees two main exit routes – the sale of its equity through the stock market or to individual shareholders in the fund who may wish to retain their shares in a thriving business.

It envisages a 12-year closed fund with a three-tranche subscription timetable in years one, three and five. The management services element will be provided by a small group of young, aggressive entrepreneurial professionals *whose task will be to ensure that if* management of the companies in which the fund takes a minority stake does not measure up, *it is strengthened* or replaced.

The project makes sense all round – capital gains for the investors, improved management skills and profits for the target firms, greater tax revenue, more jobs and increased exports for the government.

A second venture capital project – Risk Fund – is being sponsored by the *government*-controlled Raw Materials Research and Development Council. It hopes to raise $30m, mainly from the private sector (60 per cent) to fund high-risk, high-return industrial projects.

Already, several banks have promised to join the scheme, along with a clutch of prominent global companies – Mobil, Glaxo, Unilever, Volkswagen, Nestle, Guinness, Cadbury and Dunlop. The promoters hope to attract support from foreign institutional investors, including agencies such as the International Finance Corporation.

Unlike Ecoventures, the Risk Fund will be targeted solely at Nigeria. The government supports the scheme and has promised to promulgate a Venture Capital Decree soon which will sweep *away many* of the obstacles currently clogging capital market wheels, including one that bans insurance companies *from participating.*

Tony Hawkins

Michael Holman's guide to Nigerian confidence tricks

Beware the artful dodgers

LOOK OUT *for* Nigerian conmen: they are of "world class quality," warns a western diplomat in Lagos, alarmed by *scams which have raked in millions of* pounds from victims in Europe, north America and elsewhere.

He might have added: "... and they've found some world-class suckers."

Anyone taken in by the offer of a 25 per cent cut if they would allow $10m or more to be transferred from Nigeria via their bank account – a common scam – would seem to be as gullible as they are greedy. Yet one man lost nearly $500,000 this way, convinced by his Nigerian partner that just one more bribe would release the funds.

The government *is trying to crack* down on what, in Nigeria, is known as "419", the section in the criminal code which deals with obtaining money by deception. At the same time, Nigeria's trading partners, and the four inspection agencies which monitor on behalf of the government the price and quality of imports, are stressing the importance of following the procedure for exports to Nigeria to the letter.

Be on the look-out for the following confidence tricks:

The visa scam

Most business inquiries from Nigeria are bona fide. Some are bogus – an *attempt to get a visa under false pretences,* by persuading the overseas company to send a letter of invitation to *support the visa application.* Advice: the commercial sections of the main embassies in Lagos will help check the local firm's credentials.

Airport scam

The conman copies the name of a passenger from the board held up in the arrivals hall by the company driver meeting the flight. A fake driver, board aloft, greets the passenger *inside* the *customs hall, and offers help with customs* and immigration formalities. The visitor surrenders passport and traveller's cheques, and the driver disappears.

Commercial samples

After establishing credibility through a succession of inquiries, the conman asks for samples, either free or paid-for, when the main consignment arrives. Advice: ship samples only after receipt of payment; and point out that the price and quality of orders are checked by the independent inspection agencies.

Export-import scam

An exporter is persuaded to send goods to Nigeria before payment. Alternatively, an importer agrees to pre-shipment payment, but asks the exporter to *pay a special "import tax" imposed by* government. There are no such taxes. Advice: ship only under irrevocable letters of credit, confirmed by a bank known to the exporter.

Financial document scam

A firm or individual receives a letter seeking help in transferring funds from Nigeria, in return for 20 per cent or more of the amount involved. The letter explains that the funds, $10m or more, are in a special account designated by an earlier regime. The account has been *overlooked in the confusion surrounding* the coup that brought the present government to power. The letter sometimes suggests that some of the "discovered" money will be spent on the firm's products. It usually asks for blank headed letter paper, and the company's address stamp on blank pro forma invoices from the Nigerian company, all signed; and the company's bank account. Advice: tear it up.

The sting

There are two variants. One is based on *a supposedly legitimate business deal;* the other proposes defrauding the Nigerian government.

It may involve an oil lease, or a share in oil shipment, often backed by convincing documentation. The victim is *persuaded to pay phoney fees or taxes* before the deal can be completed.

In both cases, the con may establish *his credibility by flying to Europe* or the US to meet the victim or "mark", or paying for a ticket to Lagos.

Once the victim is in *Lagos, the trap* starts to close, but the same becomes more plausible. The con arranges VIP treatment at the airport, puts him up at a hotel, and arranges meetings with fake or real officials, sometimes in the ministry supposedly involved.

"Now the con closes the trap," *explains a western embassy official* who spends much of his time dealing with fraud. "A problem will arise with the inside man who wants an upfront bribe for his risk, or an unforeseen government fee or tax is needed, or something else happens that requires the payment of a large amount of money or the deal will fall through."

The con usually claims that he can pay most, but not all, of the money needed. "The mark sees this deal of a lifetime slipping through his fingers and pays up ... the sting has succeeded."

Until recently, the conmen relied on their guile. This is changing, warn embassy officials, and there are an increasing number of cases involving physical intimidation.

The new Memorandum of Understanding has placed the oil industry on a more secure financial footing, writes **Edward Balls**

Ambitious programme of investment

NIGERIA HAS two distinct economies: the oil industry, which constitutes the nation's economic core; and the rest of its manufacturing, agriculture and service sectors, which together form its struggling hinterland.

More than ever, these two economies appear to be going in opposite directions. The non-oil economy is limping along, dogged by slow growth, low investment and heavy debts. But the oil sector, source of the bulk of tax revenues and foreign currency export earnings, is flourishing.

Indeed, the outlook for Nigeria's oil industry looks better now than at any time in the past decade. The signing, last July, of the new Memorandum of Understanding (MoU) between the government and the foreign oil companies has placed the industry on a more secure financial footing.

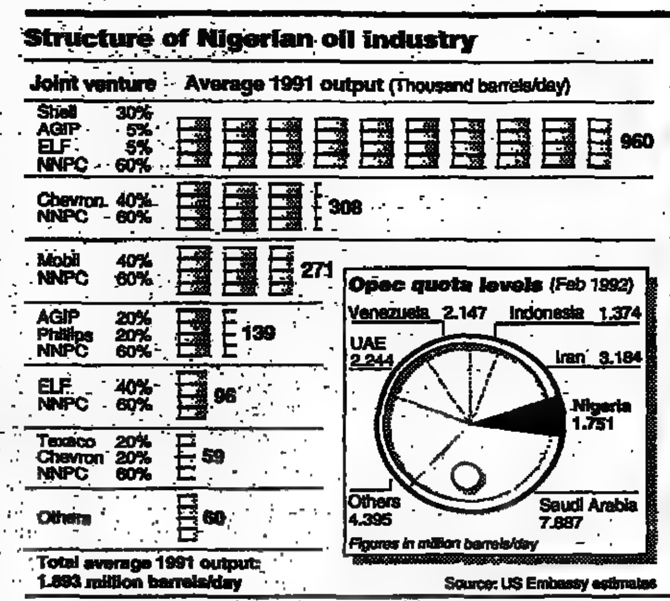
The MoU, replacing the original agreement signed in 1986, has restored the real value of guaranteed profit margins the foreign companies receive on their investments, and put in place a series of further fiscal incentives for new investment.

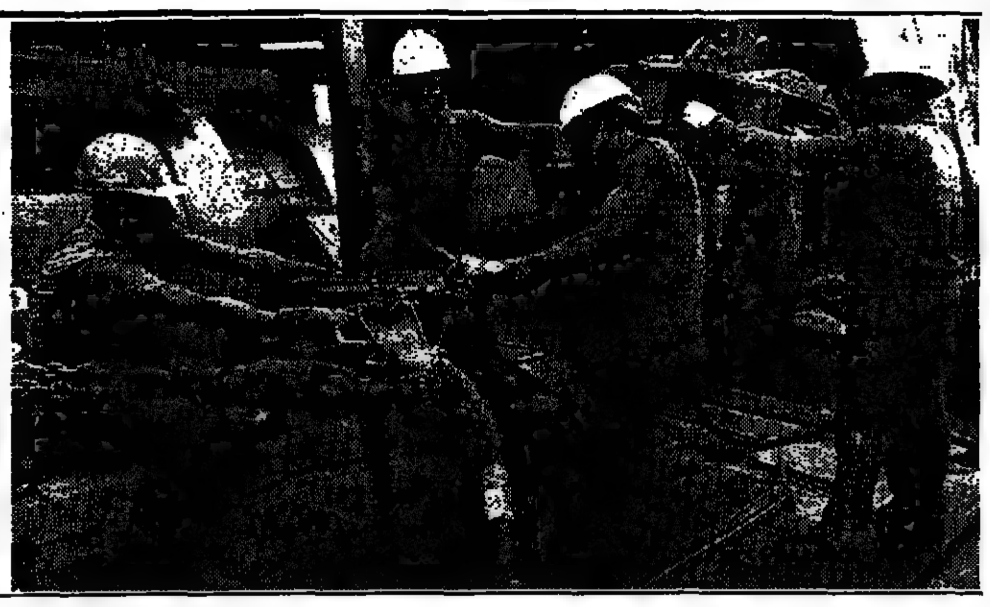
The MoU also maps out a new five-year plan of exploration and capital investment designed to increase production and reserves. The government aims to increase the potential output of the industry from its present estimated level of 1.95-2m barrels a day to 2.5m b/d by 1995. It also plans to increase Nigeria's proven oil reserves to 20bn barrels from their present 18bn.

Output last year averaged 1.893m b/d. The new Opec quotas, agreed recently in Vienna, would reduce Nigeria's production to 1.751m b/d. But the government and the oil companies are confident that if Nigeria can increase its production capability, its quota share will be increased accordingly.

The foreign oil companies and the Nigerian National Petroleum Corporation (NNPC), the majority partner in all oil ventures, have embarked on an ambitious programme of capital investment.

Shell, the largest foreign company, plans to increase the average daily production of the joint venture it operates from 900,000 to 1.3m b/d by the late 1990s, and has increased *annual capital expenditure* from $500m to $1,500m a year over the past three years. Philip Watts, Shell's managing director in Nigeria, describes the government's expansion targets as "entirely realistic".





Alfred Koch, managing director of Mobil Producing Nigeria (MPN), agrees. He dismisses suggestions that NNPC will not be able to come up with its 60 per cent share of the necessary capital investment. Mobil plans to raise the crude oil production of its joint venture to 425,000 b/d by the end of 1995. It had already increased its average daily production to 310,000 barrels in January, displacing Chevron to become the second largest foreign producer in Nigeria.

Moreover, Mobil's total production will increase by a further 100,000 b/d once its $885m project to produce a high-quality hydrocarbon condensate comes on stream in December. Condensate falls outside the definition of crude oil governed by Opec quotas. Financing for the plant was secured last year, and the plant is already 77 per cent complete. It should be running at full capacity by the *end of March 1993*.

Chevron is determined not to be left behind. Having more than doubled capital expenditure between 1990 and 1991, it plans to do so again in 1992. *Over the next five years, total* gross capital expenditure will reach $8bn with the aim of increasing production to 320,000 b/d this year and 400,000 b/d by 1995.

Nigeria, then, is a priority location for many of the world's largest oil companies, and their commitment to Nigeria is long-term. Both Mobil and Chevron have recently moved to smart new office complexes around Lagos, while Shell is planning to shift its corporate headquarters to Abuja, the new federal capital.

Why Nigeria? The oil industry there is relatively young and undeveloped, the oil is light and of a high quality, the climate is relatively benign, keeping operating costs low, and Nigeria is not in the Middle East. The risks of political instability disrupting production appear to be low.

This year's election, and the shift to civilian rule, might be expected to make foreign investors nervous. But the oil industry executives are nonplussed. "If you review the history of the past 30 years," says Mr Koch of MPN, "every time there was a change of government there was not a substantial shift in oil policy. Our best guess is that that will continue." This sentiment is shared by all the companies.

The relationship between the Nigerian government and its foreign partners is clearer than ever before. Each company was required to sign a Joint Operating Agreement (JoA) with NNPC last year which documents, often for the first time and in precise detail, the rights and obligations of each party.

The JoAs spell out, for example, procedures for making capital spending decisions and the foreign companies' obligations to train their Nigerian nationals. They are also believed to grant NNPC the right to become the operator of fields if and when it so chooses.

Are the foreign companies concerned that their assets could be nationalised at any time? Apparently not. "If the government decides it wants to take over operations, that is its prerogative," says Donald Mabura, managing director of Chevron's Nigerian subsidiary. "But I don't think that the JoA gives them any more or less right to do that."

The truth is that the government is dependent on the for*eign companies for investment* funds and technical skill. As Mr Koch of MPN points out, "there is nobody in Nigeria who is foolish enough to nationalise the oil companies".

Far from taking a more active role in the oil industry, NNPC looks set to become less involved in day-to-day operations as a result of the government decision to shift *away from the joint venture* model that has dominated the Nigerian oil industry.

In 1990, the government announced the largest round of licensing of new oil fields since the 1960s. A total of 136 blocks, covering 421,000 square kilometres of unexplored territory, were thrown open to bids due in November 1990. A number of new concessions have since been allocated, although the process is not yet complete.

The new MoU will not apply to oil discovered or produced from these fields. Instead the government is offering production-sharing contracts which require foreign operators to undertake 100 per cent of all exploration and development costs. If oil is discovered, the foreign company then sells a portion of the output, known as "cost oil", to cover its outlays. The remaining "profit oil" is then distributed between the government and the companies on terms which compensate the operators for the higher risks they bear.

The exact terms of the production-sharing contracts are still being negotiated. The *advantage for NNPC is that the* foreign company bears the initial capital cost and the upfront risk. NNPC only becomes involved once oil is discovered, which could be 10 or more *years after exploration begins.* "With the fiscal terms in place in Nigeria there is not really a big incentive for the government to be a direct equity partner in the oil sector," explains *Mr Mabura of Chevron.*

Yet the foreign companies have not been deterred from bidding for the new acreage, either by the JoA or by these new financial arrangements. All the leading companies have been allocated new concessions, while some old faces have returned, notably BP.

BP, and its Norwegian partner Statoil, have been allocated two off-shore blocks and have a preliminary investment budget of £250m over the next five years. BP is returning after an 11-year absence. In 1979, the company had its assets seized, notably a 20 per cent stake in Nigeria's largest joint venture, after allegations it was shipping oil to South Africa.

NNPC has also made discretionary allocations to 18 newly-created Nigerian companies, although most are expected to enter into joint venture agreements with foreign partners.

So, while the Nigerian macro-economy looks to be in a fragile state, and its politics face an uncertain few years, the oil industry continues to expand. The foreign oil companies do not seem worried by the domestic instability that surrounds them. Indeed, the suspicion is that the foreign oil companies secretly thrive on it. The more unstable the domestic political situation, the less likely it is that the government will try to interfere with its one dependable source of revenue. At least that has been their past experience.

Sharpening fiscal incentives

THE new Memorandum of Understanding (MoU), signed by the Nigerian government and its foreign joint venture partners last July, guarantees minimum profit margins to the foreign joint venture partners of the Nigerian National Petroleum Corporation (NNPC) over the coming years depending on their levels of capital investment and cost efficiency.

The original MoU was signed in 1986 at a time of falling oil prices and production, dwindling reserves and low capital investment by the foreign oil companies.

It guaranteed a minimum after-tax profit margin of $2 per barrel in exchange for stipulated exploration commitments. This guaranteed profit margin was subject to NNPC's operating partners keeping to minimum standards of cost efficiency. When costs rose above a notional technical cost of $2 per barrel, the guaranteed profit margin was reduced.

The original MoU also obliged the foreign companies to purchase the government's crude oil share at 45 days' notice if it was unable or unwilling to sell it on the open market because of adverse market conditions.

Negotiations to update the original MoU began in early 1990, *the year in which the* original five-year exploration programme ended. The real value of the guaranteed profit margins had been eroded by inflation.

Moreover, the government was keen to sharpen the fiscal incentives for the foreign companies to increase their oil reserves to meet its declared aim to increase total reserves to 20m barrels by 1995.

After some delay, the new MoU was signed last year, detailing a new five-year plan for exploration and production and containing a number of new features designed to increase capital investment in the oil sector.

It guarantees a profit margin *of $2.3 a barrel so long as tech*nical operating costs do not exceed $2.5 a barrel. But the minimum guaranteed margin increases to $2.5 a barrel if capital investment exceeds $1.5 a barrel with total operating costs less than $3.5 a barrel.

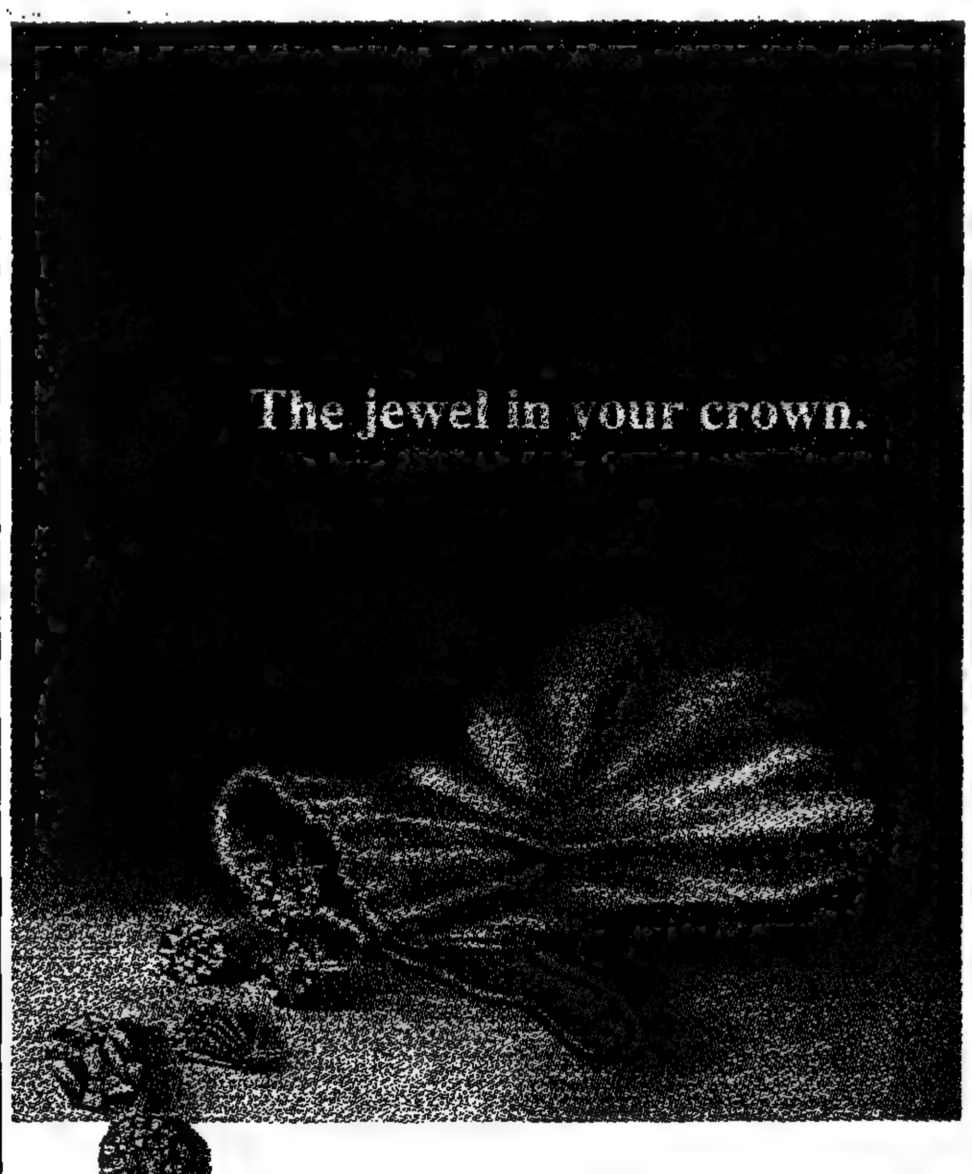
In addition, the new MoU provides bonuses for companies that increase their reserves by more than they produce in any given year, thereby adding to net reserves. It also reduces the required notice period for purchasing unsold government crude to 15 days.

The terms of the MoU do not apply to the new oil fields that have been allocated by the government over the past year. For these fields, the government intends to shift to production-sharing agreements, the terms of which are still being negotiated.

The foreign oil companies appear satisfied with the new agreement and have stepped up their capital spending plans accordingly. Mr Philip Watts, managing director of Shell's Nigerian subsidiary, says that having the new MoU has made a big difference by providing a "proper financial underpinning" for Shell's Nigerian operations.

"Its not that the deal is marvellous. But the proof of the pudding is in the eating; and all the major players are gearing themselves up for major capital expenditure."

Edward Balls



Dr Thomas John, head of Nigeria's National Petroleum Corporation, talks to **Edward Balls**

'We would like to retain our dominant role'

Edward Balls: What progress has been made in restructuring and commercialising the Nigerian National Petroleum Corporation?

Dr John: After many years of operating as a government agency, it cannot be easy suddenly to change into a commercialised institution – certainly not merely by government declaration. A lot of work has to go into changing the attitude of the management staff in the first instance and then all the way down to the shop-floor worker. We believe we have made substantial progress.

Does NNPC intend to retain its dominant position in the oil sector?

I believe that so long as we contribute 60 per cent to the funding of the joint venture companies, we will continue to play a dominant role. We have a *Joint Operating Agreement* (JoA) which recognises the rights of both parties and enables us to operate in a manner which does not subjugate the interests of either party to the other. We have a dominant role in the industry and we would like to retain it.

The new JoA, which allows NNPC to take full control of its existing fields if it wishes, suggests NNPC wants more control. But at the same time you are negotiating production sharing contracts for the newly-allocated oil fields. Does this mean a less active role for NNPC in the future?

No. It has all to do with how we use the limited resources at our disposal. For the next 30 to 40 years, we shall still be working on existing fields and operating the existing contracts guided by the JoA. If we can successfully take over a great portion of the existing fields, and there are many still undeveloped, then we will have made satisfactory progress.

With the production sharing contract arrangement we do not have to invest money up-front. We leave that to the major oil companies, who will invest 100 per cent of the money required for exploration, appraisal and development. The terms, of course, will be made in such a way that it is attractive to them to take this front-end risk.

How can you assure the foreign participants, who are considering signing these contracts, that you are not going to let them spend the money to find the oil and then take it all for NNPC?

How can I assure anybody of anything in this life? It will not be this managing director or this government which comes up with a new idea about how the industry should be operated. A future government cannot be denied its freedom of action. What you are asking me is that I should make a commitment on their behalf. I will say I don't have the power.

How successful has NNPC been in encouraging the development of indigenous, private sector Nigerian oil companies?

Very successful. Two of these *indigenous oil companies* have made discoveries and are poised to move on to appraise the oil fields they have discovered. We believe that in the next three years they should be in production. Others have brought in foreign partners. I would say about 60 per cent of those allocated acreages are actively working on them.

The record suggests that managing the oil refineries is a weak spot in NNPC's activities. What is being done to rectify matters?

The problems in the management of the refineries arose out of the shortage of foreign exchange with which to procure the spare parts necessary to maintain them, and the very rapid development of the refining sector in the country. Within a period of eight years, we built three refineries and three petrochemical plants. But we were not able to train staff as quickly as we built the refineries.

In the last three years we have not built any new plant and we have had the opportunity to train personnel. And we now have access to the foreign exchange we require to bring in spare parts quickly. Our operation of our refineries has improved considerably.

Have you considered foreign participation in the refining industry? Has NNPC given up its aspirations to participate in the downstream refining of its crude oil in Europe or North America?

For some time now we have nursed the idea of a joint Nigerian-foreign owned export refinery to provide jobs for our people and refined products for our sub-region. We are anxiously looking for partners who are willing to invest.

We still have open the idea of investing in a foreign refinery, to secure a guaranteed outlets for our crude oil and also to share in the profits obtainable at the pump station. That adds value to our crude oil. We are still searching for the right buyer.

You have been looking for some time now?

Yes. We have been searching for some time now, and let's say we have not been lucky enough to find what we want.

How successful has NNPC been in exploiting Nigeria's gas reserves?

We have several plans for gas development. The only limitation we have is the financial resources to execute all the projects we have identified.

The liquefied natural gas (LNG) project is one major project. We also plan to produce methanol, MTBE and NGL. These are being looked at by our joint venture partners, namely Shell, Chevron and Mobil.

Locally we now supply gas to some of our thermal electric plants and there are several projects to bring gas to the Lagos industrial area. In another two to three years, we should have several industries supplied with gas from the Escravos-Lagos trunk line.

The gas price that suppliers receive is set by the government at a very low level. Is liberalising the domestic gas price a necessary step in nurturing a flourishing domestic gas industry?

At present, those companies which supply gas to the grid do so from non-associated gas sources. I don't think they have complained yet about the return on their investments. They supply it because they are making money. They are not missionaries.

But we do not believe we should go ahead with exploiting non-associated gas while we flare associated gas. So the policy now is preferentially to exploit associated gas which costs a lot more to produce. To enable these companies to provide gas from associated gas sources, the government is seriously considering fiscal incentives which would make it profitable for them to do so, without increasing significantly the price of gas the government has fixed.

Does Opec matter as much to Nigeria as it once did?

Nigeria is committed to Opec – what else can I say when a Nigerian is president? It is still a useful organisation and there are times, I think, when consumers also value the assistance of Opec. After all who else would be there to make the sacrifices if Opec were not there?

So Opec are being missionaries, are they?

Well, that's what it would look like. The only true missionaries!

Edward Balls visits Chevron's oil terminal on the Niger delta

Hottest place in the world

MONSTROUS ham sandwiches, Folger's coffee and the singing drawl of southern US accents are a rare combination, seldom found more than a few hundred miles north of Jackson, Mississippi; apart, that is, from the rig control room of Chevron's main Nigerian oil terminal at Escravos, perched on the mouth of the Niger delta.

It is more than coincidence that so many of Nigeria's expatriate oilmen hail from the south-eastern states of America. Many of them, including the terminal's new production manager, Mr Guy Hollingsworth, learned the oil trade in the warm waters of the Gulf of Mexico: perfect training for the hot, tranquil and oil-rich seas off the west African coast.

"Nigeria has one of the most benign offshore environments in the world," Mr Hollingsworth says. With no hurricanes, no big winds and platforms very close to shore, the average North Sea oilman might be forgiven for thinking these Nigerian-based guys have an easy life.

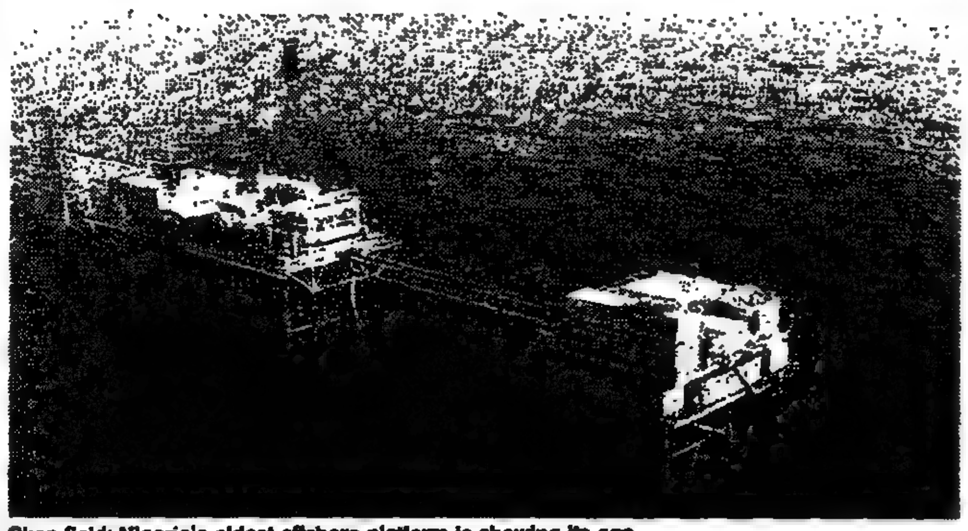
Yet while offshore Nigeria may be tranquil, things are far from benign back on land. "The biggest difficulties we encounter here are the logistics of getting supplies in and out, and security – theft, threats and violence," he explains.

Security at the terminal is very tight. Armed guards now patrol 24 hours a day after a riot last autumn. That followed the swamping, by a terminal-bound supply ship, of a canoe full of villagers early one morning.

Fourteen people drowned, and the local inhabitants took their revenge. Chevron's Nigerian employees fled and most of the expatriate staff were helicoptered out to a platform at sea, while Mr Hollingsworth's predecessor cowered in an attic. The scars of the disturbance – boarded-up windows and damaged vehicles – remain.

It is not only security and the difficulty of getting a really cold beer that differentiates producing oil in the Niger delta from the Mexican Gulf. On almost every score – facilities, safety, environment, food – Chevron's Nigerian operation falls short of its US standards.

Chevron's corporate policy, I was regularly informed, is to maintain the same standard across its entire global operation. But the company readily admits that this remains an aspiration rather than reality in Nigeria.



Okan field: Nigeria's oldest offshore platform is showing its age

The sun danced across oil-skimmed water as our helicopter swooped over the Okan field to land on Nigeria's oldest offshore platform.

This, I was informed, was the least well maintained, most uncomfortable to live on and most environmentally unfriendly platform Chevron maintains; it showed.

Nigerian government regulations permit only 100 parts of oil per million parts of water per day, and an average of 75 parts per month, to be pumped into the sea as the oil is filtered on the platform before being piped ashore. That day the Okan platform was pumping anywhere between 90 and 150 parts per million.

Not that the government is particularly stringent about monitoring the standards it sets. "We could lie about it," explains Chevron's young American safety and environment manager. "But I want to tell the truth; and the truth is that we are not complying."

Chevron's problems stem in part from the way in which the Gulf oil company neglected necessary maintenance work before Chevron took it over in 1985.

But the depressed state of the whole oil industry in the mid-1980s and the subsequent rush to squeeze out as much production as possible during the Gulf war means that all companies face similar problems. Okan's capacity is 50,000 barrels a day, but it is currently producing 70,000 a day including 15,000 barrels of (oily) water.

The company is now taking steps to improve its safety and environment record. It has a Facilities Upgrade Project in place which will consume £125m a year over the next five years to upgrade the decaying infrastructure.

Oil filtration units will be installed at all platforms. Already, the Escravos operation is complying with environmental standards 40 per cent of the time, up from 20 per cent last year.

But maintenance must go hand in hand with production and expansion. Chevron has responded smartly to the incentives to increase reserves embodied in the new Memorandum of Understanding, signed last year. Three drilling rigs were working out of Escravos last year. Now there are five, with plans to add two more. "Nigeria is one of the hottest places in the world in the oil business," says Mr Hollingsworth, "and for Chevron it is the hottest."

Oil is not the only valuable resource concealed within the Delta. Flying to Escravos from Lagos, the first signs of industry below are the associated gas flares which continually burn off the gas produced as an offshoot from the oil production process.

Nigeria is rich in natural gas; but more than 70 per cent of gas produced each year is burned away. "There are very few places in the world where associated gas is flared," explains Mr Donald Mahura, managing director of Chevron's Nigerian subsidiary. One important reason why so much gas is wasted in Nigeria is the low level of prices set by the government which removes the incentive for the companies to exploit these gas reserves.

The government has been trying to persuade the joint ventures to exploit this gas. Chevron is planning to build a terminal at Escravos to tap this associated gas and sell the bulk of it to the domestic electricity industry.

Construction should begin in 1993 with production on stream by 1995. But the scheme will go ahead only if the company's Lagos-based executives can negotiate a sufficiently attractive supply contract with the government.

So the problems faced by the oil and gas industry in Nigeria are very different from those thrown up by the Gulf of Mexico or the North Sea. The challenges which animate the conversation of Chevron's US oilmen are to found onshore; security at Escravos, politics in Lagos. "Sometimes these guys might think this is Mississippi," Mr Hollingsworth says. "But it sure ain't." In Nigeria, finding and extracting the oil seems to be the easy part.

Edward Balls reviews the gas industry

Flaring monuments to a wasting resource

THIS promises to be an active year for Nigeria's gas industry. But much of the activity remains in air-conditioned offices in Lagos and the world's financial centres while most of the gas produced burns away in solitary flares; monuments to the wasting of a resource the country desperately needs to exploit.

Nigeria has proven gas reserves estimated to be more than 2.8m cubic metres, with a further 1,800bn cu m of probable reserves. Nearly two-thirds of the gas reserves are in the Niger delta, the heart of the oil industry.

Yet the oil companies do not actively explore for gas. Discovered fields are left untouched; while the associated gas produced as a by-product of the oil industry is burnt away. Production in 1990 was estimated to be 27.6m cu m, of which 77 per cent was flared.

The Nigerian National Petroleum Corporation has been trying for some years to persuade the oil companies to tap this natural gas production for export or to supply the domestic market. So far, only Shell has done so. But the final decision on a number of large-scale projects will be made over the coming months.

The Nigerian Gas Company (NGC) has a *monopoly for buying gas from producing joint ventures*. About 72 per cent of its sales are to the four thermal power plants of the National Electric Power Authority (NEPA). The other main customer is the National Fertilizer Company of Nigeria (NAFCON).

Commissioned 1988, NAFCON is highly profitable and plans are afoot to build a $500m replica of the existing plant. NAFCON will remain an important consumer of domestic gas.

The main obstacle to supplying gas to the domestic market has been the very low price of gas, set by the government at N5.24 per thousand standard cubic feet. This price, the oil companies have traditionally argued, has acted as a disincentive for the oil companies to *invest in gas facilities*.

Yet the government policy remains to exploit the gas reserves. Over the past year, the Shell joint venture, which supplies non-associated gas from two gas plants, has negotiated new 20-year sales agreements with NGC, replacing an earlier informal understanding.

The agreements have rationalised the existing gas contracts and supply arrangements, explains Philip Watts, managing director of Shell's Nigerian subsidiary. "We are going to get the gas business on to a proper commercial footing," he says.

But the terms on which the gas will be sold are still being *negotiated. Shell expects an* agreement to be forthcoming over the next few months with fiscal concessions compensating for the low supply price. "People will only invest hundreds of millions of dollars in the utilisation of associated gas if there is a stable fiscal framework," says Mr Watts.

Chevron also expects to agree terms with the government which will enable it to go ahead with a $500m project to build a plant at its Escravos terminal. The plant will recover 300 cu ft per day of associated gas which is currently being flared. NNPC has been keen for Chevron to tap this associated gas, but the project has been held up for more than a year because the supply price on offer did not make it profitable to recover the gas, a more expensive process than tapping non-associated gas wells.

Chevron is already doing preliminary work on the proposed site and hopes to draw up a short-list of six construction companies, with engineering work beginning by June. The plant would begin production in 1995.

But the project is premised on a favourable deal with NNPC. "Neither NNPC nor Chevron is willing to get into a project that is not economic," says Donald Mahura, managing director of Chevron's Nigerian subsidiary.

Nigeria has also pursued plans to use its gas reserves for export. Mobil is believed to be considering a gas project to follow its successful Oso condensate venture.

There are also plans to use some of the gas produced by Chevron as a feedstock for an export-orientated $400m methanol plant. Chevron says that its plant *should still be* economically viable if it supplies the domestic market only.

The methanol plant, with a daily output of 2,000-2,500 tonnes, would be a joint venture between NNPC, the UK-based company Penspen and the German company Mannesmann. Chevron has also been invited to become an equity partner, but Mr Mahura says the proposal is still under consideration.

Sources close to Penspen say that ICI, the UK chemicals company, has guaranteed to buy the methanol for at least 10 years after production begins in 1995. The methanol will be used to make MTBE, a replacement for tetra-ethyl lead in petrol, with the US the main final destination.

Nigeria's largest and most ambitious gas project, however, is a multi-billion dollar plan to produce liquefied natural gas (LNG) for export to the US and Europe. In 1989, Nigeria LNG (NLNG) was established to construct and operate the plant and market the gas. The company is owned by NNPC (60 per cent) Shell (20 per cent), Elf (10 per cent) and Agip (10 per cent).

The project is now reaching its critical stage. Cost projection over-runs and the difficulties of negotiating buyer contracts in the highly competitive world LNG market have delayed the project. If a financing package can be agreed by the end of this year then production could begin in 1997.

The central issue on which the success of the project depends is the price agreements that NLNG can negotiate with its buyers. Last September, the company agreed a memorandum of understanding with each of its four potential buyers: ENEL (Italy, 3.5 cu m per year), ENAGAS (Spain, 1.0 cu m), Gaz de France (0.5 cu m), and Distrigas Corporation (US, 0.7 cu m). But the precise terms of the contracts, which will fix the formulae linking the LNG price to the world crude oil and crude product prices, have yet to be signed.

NLNG sent an information memorandum to selected financial institutions last November. But the institutions were not provided with any information about the likely supply prices for the LNG. A source close to the institutions described the project as "unbankable" until this information is supplied.

NLNG hopes to sign two of the four contracts this month, and the rest in April. This would *enable the International* Financing Corporation, the World Bank's private sector finance arm, to complete an independent assessment of the viability of the project by April to be sent to the institutions.

A positive response from the IFC report is crucial for the success of the project. If all goes well, construction could begin by the end of the year. Two international engineering consortia have been invited to bid for the contract.

But if the IFC concludes that the supply price agreed with the buyers is too low or uncertain, the $2.4bn financing package will not be forthcoming and the project will fold.

"We need some encouragement for the financial community," says Mr Giovanni Pedaci, corporate planning manager at NLNG. "Our project is complex, it is difficult; but in the end it will be worth it." Whether the banks and export-credit agencies agree with his assessment will be revealed over the coming months.

Natural gas production (millions of cubic metres)

	1988	%	1990	%
Gross production	24,831	100	27,593	100
Gas flared	18,237	73	21,341	77
Gas re-injected	1,993	8	2,175	8
Gas used in field	769	3	807	3
Marketed production	3,883	16	3,233	12
Natural gas liquids	47	–	37	–

Source: Nigerian National Petroleum Corporation and Central Bank of Nigeria

Julian Ozanne examines the progress of the agricultural sector

Age-old problems remain

AGRICULTURE is the barometer of the depth and successes of the past six years of structural adjustment, more than any other sector of the economy. As the government repeatedly says, growth in food production and stimulation of agricultural exports are critical to efforts to raise the low standards of living of Nigeria's expanding population.

Agriculture's central economic importance cannot be overstated. It continues to provide jobs and livelihoods for at least 70 per cent of the estimated population of 110m.

However, in spite of some impressive initial gains in macro-economic adjustment, most notably in food crop production and cocoa exports, many of the underlying structural weaknesses in the sector have not been addressed by the government. Partly, this can be explained by poor policy analysis and implementation. Yet it is the continuing powerful and negative influence of vested interests with political muscle that obstructs more concentrated reform.

Eight years ago, before the introduction of the reform programme, the Financial Times *survey of 1984 set out the devastating agricultural legacy of* the oil boom years and the challenges facing the sector.

Agriculture, it said, was suffering from stagnating food production, declining exports, a low level of investment and inadequate rural infrastructure and extension services to farmers. In 1984, the crippling cost of food imports was $2bn and traditional exports of rubber, cocoa, ground nuts and palm oil had slumped to pathetic levels. The sector was inefficient and heavily subsidised. It had been hit by an overvalued exchange rate which gave poor price incentives to farmers and meant costs of production were 50 per cent higher than those of other international producers. "Regular and adequate inputs of fertiliser are probably the single most important factor in Nigeria's attempt to boost agricultural production," the FT said.

These concerns were at the heart of government thinking when President Ibrahim Babangida launched the structural adjustment programme in August 1986 and, since then, agriculture has been at the heart of the government stated policy rethink.

Some of the problems identified in 1984 have been addressed. Devaluation, the abolition of state-run marketing boards, the introduction of import bans on grains, rice, meat and poultry, export prohibitions on food staples and price liberalisation have created impressive early gains.

The World Bank-funded Agricultural Development Programmes (ADP), now set up in every state, have made some significant, if uneven, progress in extension services and developing research linkages to the farmers. A steady growth rate of 2.5-3.5 per cent a *year over the last five years* has reversed the sector's previous decline. According to President Babangida, agriculture grew 4.35 per cent in 1990 and 5 per cent in 1991 as a result of improved domestic terms of trade, government funding of extension and rural infrastructure and easy access by farmers to rural credit. Good rainfall throughout the past 12 months considerably improved production of food crops, especially cassava and maize.

However, many of the *age-old problems remain as strong* today as they were eight years ago. The large gaps between the official and parallel rates of exchange before the floating of the naira, restricted investment in productive activity and has been a serious constraint to growth. Inefficient and costly subsidies on fertiliser (which consumes most of the federal agriculture budget), poor research and extension services, inadequate access to credit and the lack of a consistent policy environment for investment in commercial farming all combine to curb production. New investment in agricultural processing industries over the past five years has been minimal with a handful of new projects in soy milk, baby food, cotton, palm oil and vegetable processing.

On the next two pages, **Julian Ozanne** looks at the food industry, cocoa plantations, the palm oil industry and the timber industry

In the longer term, the government must develop urgently a coherent and comprehensive policy to stem severe environmental degradation which, according to a recent report by the World Bank, is costing the country $5bn a year. Soil erosion, water contamination, deforestation, desertification, flooding, gully and coastal erosion, inefficient urban sewerage systems, water hyacinth and fishery and wildlife destruction are only some *of the factors held to blame.* Food self-sufficiency will also depend on how effectively the government harnesses its considerable water resources, particularly in the arid and semi-arid northern and middle belt states.

Three policy issues stand out:

■ Fertiliser policy. Last year Nigerian farmers applied about 800,000 tonnes of fertiliser – an average of 9kg a hectare. This rate of application is 10 per cent of what farmers in the US use and only 5 per cent of what is applied in Europe. Agricultural experts say the government's continuing refusal to solve the fertiliser problem severely holds potential growth in the sector from higher yields, particularly in maize, rice and vegetable pro*duction*.

The price of fertiliser was increased last year from N20 to N40 a bag as part of the government's long-stated goal of phasing out subsidies and attempting to streamline fertiliser distribution through state governments. However, in practice about half of the fertiliser falls into the hands of middlemen and traders who smuggle it to neighbouring countries or stockpile it and sell it on the domestic black market at prices between N80 and N100. *This leads to short*ages and most farmers, particularly smallholders, end up short of sufficient fertiliser at critical times.

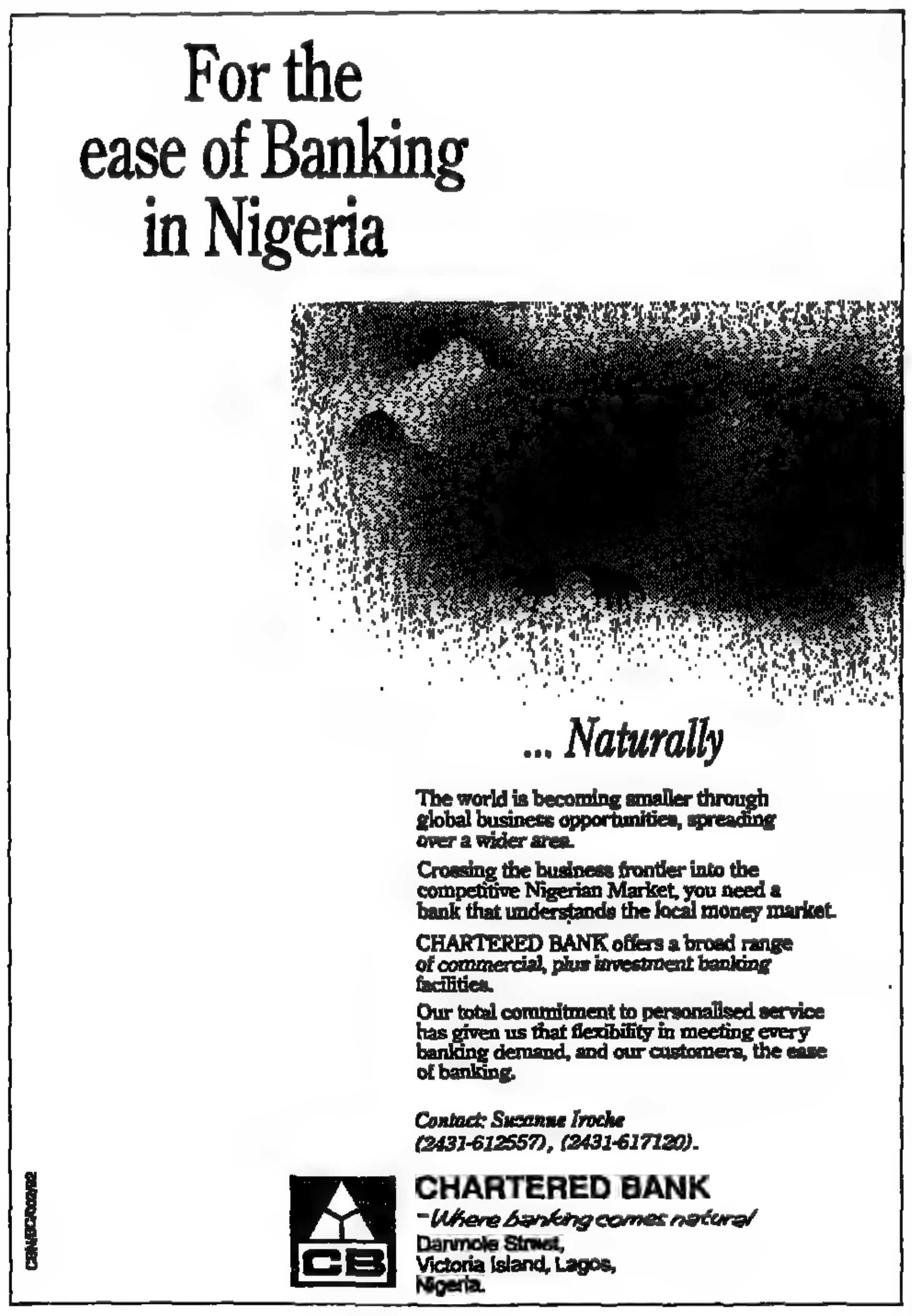
Economists argue that since farmers are prepared, within existing producer price incentives, to pay between N80 and N100 a bag, that shows the ability of the market to respond to privatisation of the procurement and distribution of fertiliser and a reduction in the N1.5-N2bn a year federal and state government subsidy. *Opposition to this policy from* powerful politically connected northern businessmen is the greatest obstacle to reform.

■ The Exchange Rate. No sector will be more grateful to government than agriculture for this month's floating of the naira. Previously, any investment in agriculture and particularly agro-industry was unattractive. The foreign exchange risks for machinery and spare parts imported from abroad, high local interest rates and the long-term nature of agricultural projects far outweighed the 15-20 per cent returns on capital possible in the sector. Failure to devalue adequately also encouraged trading rather than production, considerable naira speculation and capital flight via commodity exports. If the Naira now floats freely *and remains stable*, productive investments in agriculture will once again become serious options.

■ Water resources. Agriculture in the northern and middle belt states will continue to remain vulnerable to rainfall. Nigeria has an estimated 2m hectares of irrigable land but so far experiments in irrigation have failed to take off. The World Bank is planning a $68m loan to promote the use of 40,000 small-scale irrigation pumps in the northern valley *bottom (fadama) areas*. However, donors and farmers are waiting for the government to develop a master plan to harness the country's water resources and promote low cost, small scale, private irrigation.

It will be more difficult to develop extension services, appropriate research and technology transfer and combat environmental degradation although new policy directives on these issues will be critical to more rapid growth.

The *past six years* of structural adjustment have demonstrated that Nigeria's small-scale farmers are dynamic and responsive to market-oriented reforms and price signals. But if Nigeria is going to meet the agricultural challenge presented by its expanding population, the policy programme has to be deepened and some politically difficult choices must be faced.



FOOD SELF-SUFFICIENCY

Wheat controversy

ONCE AGAIN, an issue that is central to Nigeria's attempts to reach food self-sufficiency has become an object of intense debate and speculation this year: whether the government will lift the import ban on wheat and wheat flour in advance of the transition to civilian rule next January.

Import bans on wheat, maize, rice, vegetables, roots and tubers, combined with devaluation and price liberalisation, have been critical over the past six years in radically boosting domestic food production to about 20m tonnes of grain equivalent food staples. New varieties of disease-resistant and high yield cassava, better investment in roads and rural infrastructure and wider applications of fertiliser have also had a tremendous impact on food self-sufficiency.

Taken together, these factors, combined with good rains throughout 1991, produced a record crop of food staples. Some agriculturalists are now beginning to talk about the serious possibility of limited exports of cassava, fruits and vegetables.

Few doubt the positive impact the import bans have had on boosting incentives to farmers and fundamentally changing the dietary habits of Nigerians who, in 1983, consumed 3m tonnes of food imports worth about $2bn. The ban on maize, a crop which does particularly well in Nigeria, has been successful with production now estimated at about 1.8-2m tonnes annually.

Locally produced rice continues to be about 20-30 per cent more expensive than international prices, which has stimulated about 150,000 tonnes of smuggling annually. But milled rice production has expanded to about 570,000 tonnes, quality and processing techniques are improving and costs are falling.

No such progress has been made in wheat. The ban remains an object of nagging controversy and threatens to overshadow the considerable gains of the past five years.

Western donors believe the government is now facing up to what they describe as the "failure" of the wheat ban and have already conceded it is costing the economy dear.

Picture: Ashley Ashwood

Wheat farm: import ban has failed

The ban was designed to stimulate domestic production of wheat and to encourage Nigerians to substitute bread for other staples. For the past five years huge sums of money have been poured into the wheat farmers of the northern and middle belt of the country, who represent an influential political lobby. Government officials maintained wheat production had more than doubled to about 250,000 tonnes.

Now, however, senior officials in the ministry of agriculture admit maximum production is 60,000-90,000 tonnes annually as a result of poor yields and an unfavorable climate. The high cost of subsidies and unstoppable smuggling of wheat and flour has forced the government to re-examine the economic costs and benefits of the wheat ban.

Smuggling is draining the economy of millions of dollars of foreign exchange and the benefits in terms of jobs and incomes of a productive milling industry.

According to the US, which supplied 1.5m tonnes of wheat before the ban and has been putting pressure on the government to rescind the policy, smuggled imports of wheat and wheat flour increased from 350,000 tonnes in 1989-90 to 420,000 tonnes in 1990-91. The US argues this figure will increase to 550,000 tonnes in 1991-92 and that Nigerian wheat output slumped to 30,000-50,000 tonnes last year. The local production cost – N6,000 a tonne – is almost two and a half times the international price of $130-$140 a tonne. Not surprisingly, the price of a loaf of bread – about N20 – is more than double the price in neighbouring Benin and Cameroon, whose bakeries provide the bulk of smuggled imports. Cameroon, for example, imported 310,000 tonnes of wheat last year for a country with a maximum domestic demand of 150,000 tonnes.

The flour millers, too, who have a combined capacity of 4m tonnes a year, have been putting pressure on the government to rescind the ban and ensure the value added from milling and baking is restored to the Nigerian economy rather than given to its neighbours.

Last year the National Association of Flour Millers, faced with a shortage of locally available wheat, the high cost of smuggled imports and capacity utilisation of less than 10 per cent, presented a plan to the government. The plan called for an official import quota of 500,000 tonnes, with allocations given to each mill based on existing capacity. A levy of N1,000 a tonne would be raised on all imports and the total, about N500m, put into an Agricultural Development Fund to stimulate local wheat production and provide extra resources for the sector. Millers argue this policy would boost local industry, provide hundreds of jobs and produce bread at lower prices.

Relaxing the import ban on wheat will be difficult for a government which believes that imported wheat is highly subsidised and has stressed the dangers of a developing country relying on imported foods.

However, western donors who support the millers plan say it is time the government concentrated resources on promoting food crops which are profitable and have a comparative advantage, such as maize, rice and cassava, and on boosting exports of livestock, cocoa, rubber and cotton.

The wheat import ban is no longer viable, they say, and is draining the sector of money which could be more wisely invested. Furthermore, as import bans raise local food prices they also dampen demand for more expensive food items such as meat, chicken and eggs.

If food production is going to keep pace with a population of about 90-100m growing at more than 3 per cent a year, greater attention and resources must be given to the development of small-scale, low-cost private irrigation and tackling other problems including severe environmental degradation; inadequate use of fertiliser; low levels of investment; appropriate technological dissemination and better research and extension.

The tremendous gains in food production over the past five years have laid a foundation for Nigeria's goal of food self-sufficiency.

But it may be that absolute self sufficiency is not the most economic way to exploit the considerable energies of Nigeria's farmers.

Julian Ozanne

COCOA

Heavy rains hit crop

NIGERIA'S COCOA production, like that of other big West African producers, appears to be heading for a significant slump.

Production for the 1991-92 crop years is expected to fall to 105,000 tonnes from 160,000 tonnes last year; and foreign exchange earnings are set to drop from an estimated $190-$210m last year to $110-$120m this year.

Cocoa traders in Lagos say heavy rainfall in August and September, coming after a large mid-crop which put the cocoa trees under stress, hampered the drying of the new cocoa crop and hit pod survival. A significant increase of black pod disease was also recorded and early assessments suggest quality is very poor, particularly as farmers have been blending bad with good quality beans.

This is the first appreciable decline in production since the structural adjustment policy, introduced in 1986, spearheaded a revival of the cocoa industry. Boosted by significant devaluation of the naira over the past 12 months on the parallel market, prices have already increased significantly from an average of N10,000 a tonne last season to N17,000-N19,000 a tonne this year – a function primarily of foreign exchange speculation before the floating of the naira.

The setback in production has come at a bad time because of the continuing uncertainty over whether the government intends to pursue its stated long-term policy of banning the export of raw cocoa beans to force an expansion of local value added processing. Moreover, one of the key weaknesses in the sector – the failure to deliver adequate extension services to the estimated 400,000 smallholder cocoa farmers – continues to inhibit growth.

It is now beginning to appear that, failing a dramatic increase in world market prices, Nigerian cocoa production may not be able to recover to the 300,000-tonne level of the late 1960s. However, the foreign exchange liberalisation carried out earlier this month may at last have resolved a fundamental problem in the sector – the absence of long-term stable price signals which are established by demand and supply and accurately reflect the world market price. Prices to farmers will increase from the recent devaluation and cocoa should no longer be the object of speculators and businessmen exploiting the commodity for capital flight and foreign exchange profiteering.

Since 1986 the abolition of Nigeria's inefficient state marketing boards, price and trade liberalisation and devaluation have all significantly reversed the local terms of trade for cocoa and boosted production, exports and foreign exchange earnings. With the recent real devaluation, the macro-economic climate for Nigeria cocoa producers is favourable.

But on the micro-level there has been no improvement in the lack of proper extension services to farmers to encourage them to replant old trees, use adequate fertiliser and pesticides at the right time or improve the quality of their drying operations.

Furthermore, it remains unclear whether the government will or will not introduce the ban on the export of raw beans it threatened 18 months ago. The aim of the ban, as stated by Alhaji Abubaker Alhaji, now finance minister, was that semi-processed and processed forms of cocoa were more economically advantageous to the country in creating value added to raw materials, more employment opportunities in agro-processing and enhanced foreign exchange earnings.

However, at the time the ban was announced Nigeria had a total processing capacity of 90,000 tonnes. The ban was suspended but in response at least eight companies have gone ahead with plans to build processing plants; two new ones have already started operations. Most of the new plants have benefited from about $160m-$200m of concessional African Development Bank loans disbursed through the import-export arm of the Central Bank.

Dr Christopher Kolade, managing director of Cadbury Nigeria, says his processing plant will come on stream within the next year and that some sort of an export ban on beans will be introduced next year. "At the time I was against the ban because we did not have the processing capacity we needed," he said. "But by the end of this year we will have installed capacity of 147,000 tonnes so that is the time to put the ban into effect and make sure that cocoa prices are determined by local conditions and not speculation and terminal prices for raw materials."

However, the ban has stimulated fierce debate. Many traders argue the ban will force down prices paid to farmers. A report prepared by a leading cocoa trading company argues value added in local processing in countries of origin does not cover the costs of processing.

Cocoa pods: quality is poor

Among the other criticisms of the policy, the report argues:

■ Local processors may have difficulty meeting stringent world quality standards;

■ Processing requires substantial investment in sophisticated machinery and recruitment of skilled staff;

■ Proximity to main markets and ability to supply a consistent product at short notice gives processors in consuming countries a competitive edge;

■ A high level of working capital is required to purchase the necessary beans;

■ Local producers cannot mix origin beans according to taste and colour specifications of consumers, or draw beans from cheapest sources or those with best quality/price ratio.

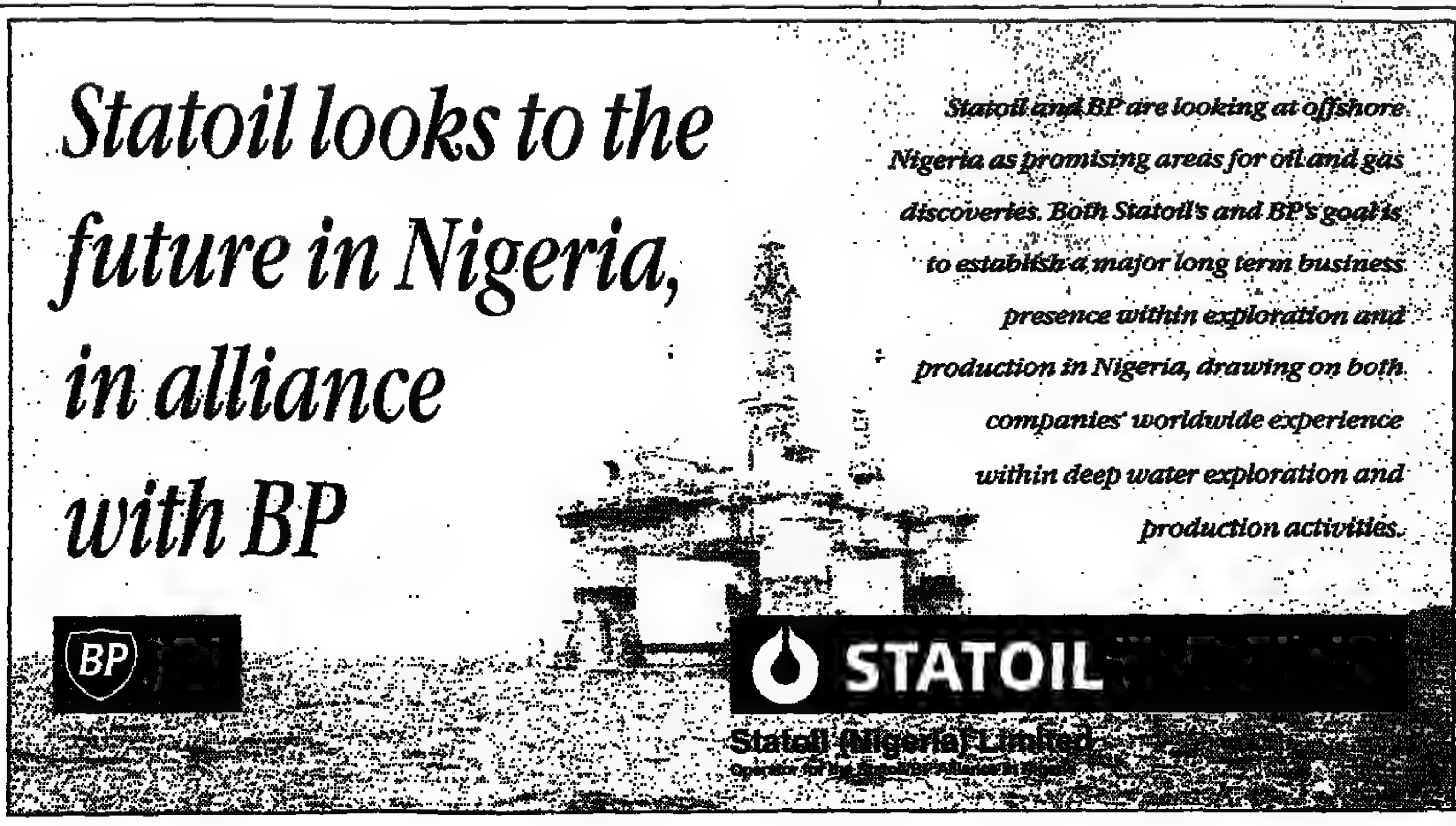
Dr Kolade says most opponents of the ban are speculators who fear their "get rich" trading operations are threatened by a viable processing industry. Nigerian processors, he says, have been exporting cocoa products for years and have achieved good quality and found a market.

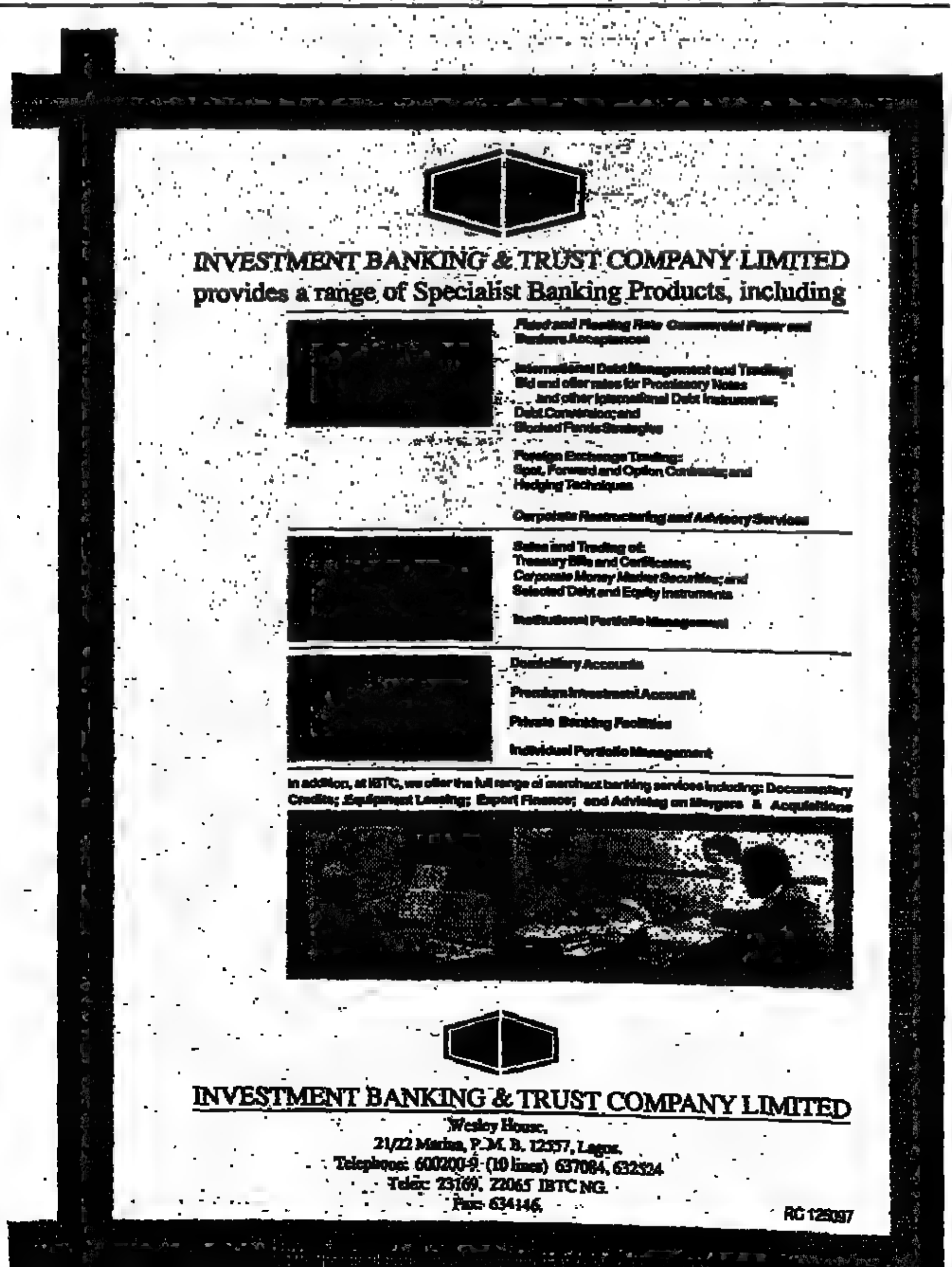
Whatever the merits of the ban, many analysts believe ultimately the government will go ahead with a restriction on raw bean exports.

"The government is thinking about socio-economic development so it is strategic for me to start up processing because the government will inevitably protect processors either through a levy on exports or a complete ban," says one trader turned processor. "The government will have to find a way for processors to make money."

The effect on Nigeria's cocoa industry remains questionable but the uncertainty about the ban and whether there will be sufficient demand for farmers' beans from local processors remains a powerful constraint to growth.

Julian Ozanne





PALM OIL

Growing pains curb investors

EARLIER this year, in the middle of Nigeria's blazing dry season, a bush fire raged for four days across 450 hectares of oil-palm plantation.

For Presco, Nigeria's only *fully private* foreign investment in the palm oil sector, it was a minor setback in an ambitious and taxing agricultural venture, the outcome of which remains uncertain.

The sector, which 14 years ago was a foreign exchange earner, has been identified by the government and foreign donors as an area for development. But Presco's fully integrated palm oil project, in Edo State, demonstrates the difficulties of successful investment in the industry in an inconsistent government policy environment.

Experts say the sector's profitability is dependent on a ban on imported palm oil, introduced in 1986 to stimulate domestic production. The considerable investment now under way in the sector, by the World Bank, European Community and private companies, is predicated on that ban being maintained, at least until the naira is realistically priced.

Last October, however, the government succumbed to politically connected businessmen, and allowed an "import waiver" for 100,000 tonnes of palm oil. Further pressure resulted in waivers being issued for as much as 260,000 tonnes, although it is expected that only between 140,000 and 160,000 tonnes will actually come into the country. The move was a blow to investors.

"Agricultural investments of this kind don't show returns for *at* least seven years – that is the gestation time," says one investor. "What really upsets people is that you wake up on a Monday morning and the whole ball game has changed. There is no consistency of policy so how do you plan for the future?"

However, with the naira now floated the competitiveness of the local palm oil sector with imports will have been considerably boosted and some of the traders who obtained waivers hoping for quick profits may be caught out.

In the mid-1960s, Nigeria exported 400,000 tonnes of crude palm oil and a number of countries, including Malaysia and Indonesia, came to study the successful industry and take away seedlings. Then came the three-year Biafran civil war, fought across Nigeria's southern palm-oil belt, which disrupted production and destroyed many of the mills and plantations.

The war was followed closely by the oil boom which made domestic production uncompetitive with cheap palm oil imports from Malaysia, Thailand and Indonesia. Last year, it was estimated that domestic production – about 70 per cent of which comes from wild palm groves and small backyard crushing operations – was between 500,000 and 600,000 tonnes, leaving a shortfall of at least 300,000 tonnes against estimated consumer demand of 900,000 tonnes. In spite of the ban on palm oil imports, 80,000-100,000 tonnes of smuggled oil has continued to reach the market to plug part of the shortfall.

For more than a decade, the government has been trying to encourage domestic producers. The World Bank has been active in funding the sector since 1982 and the ban was introduced in 1986.

As part of its drive to stimulate agricultural production, the government of former president Muhammadu Buhari in 1985 instructed Nigeria's large trading and manufacturing companies that they should invest in domestic food production or face losing government allocated import licences.

Picture: Ashley Ashwood

Harvesting fresh fruit for crushing on the Presco plantation

Presco's palm-oil project, designed in 1985 by President Industries, a textile company belonging to the Chandrai Group, is one of the few agricultural investments undertaken under that policy which have not yet been written off and which stand a chance of turning a profit one day.

Seven years and N148m later, Presco has just started production of oil. Half of its 6,000-hectare concession has been planted with improved variety Tenerra oil palms; the 10 tonnes-an-hour mill is fully operational and the refinery is just about to be commissioned. A packaging plant is also on-stream. Earlier this year President Industries sold 33 per cent of its shares to a Belgium company, SEAT, which is managing the project.

If the project is successful, it will be because of its fully integrated design, from raw materials to finished product. It will also be a result of sound management. But the risks are considerable. Any big agricultural project must start from scratch – clearing, planting, developing infrastructure such as roads, housing and schools – and must then bear the considerable foreign exchange risks of investment in machinery.

Other investments in the sector include:

■ A $70m World Bank project to increase annual production by 100,000 tonnes, by rehabilitating old oil palm plantations and oil mills, building two new mills, encouraging small holder planting of 17,500 hectares and assisting the development of improved seedlings by the Nigerian Institute For Oil-palm Research;

■ A $138m European Community Project to reclaim 27,000 hectares of land, plant 7,000 hectares of palm oil and rehabilitate and invest in new oil mills and refinery.

Both projects depend on the government's policy of privatising the poorly managed palm oil estates. A successful privatisation of Okumu Oil Palm Company took place in 1990, with a Belgian company, Endofina, taking 40 per cent of the equity. But privatisation of the other big palm oil companies – Akwapalm, Risonpalm and Adapalm – has been slow because of vested interests in the state governments which own the companies.

Investors and foreign donors believe that, with the right domestic policies, the palm oil sector will be a significant growth area during the next decade.

Julian Ozanne

Julian Ozanne ventures through a protected rain forest

Not yet out of the woods

AFRICA'S blazing sun rarely penetrates the thick evergreen canopy of the Okumu rain forest, one of the last protected areas of primeval rain forest in Nigeria's southern equatorial belt.

Amid huge mahoganies, irokos and other tropical hardwoods which stretch up to the light through dense green foliage, it is possible to imagine what it was like before man walked the earth.

As you slash your way through matted vegetation, which appears to have rioted in a frenzy of anarchy, the stillness of the forest is suddenly broken by cracking branches. Baboons and monkeys, including the rare white-throated monkey found only in Nigeria, scatter quickly at the sound of human approach, swinging through the trees, some of which are over 150 metres tall.

Other animals – including buffalo, elephant, duiker and genet – are equally cautious of human encroachment. Insects, snakes and birds, including many varieties of African parrot, are abundant and locals swear by the medicinal properties of many trees.

Six years ago, logging was banned within 112 sqaure kilometres of the forest, and the government and the Nigerian Conservation Foundation established a sanctuary in the Okumu forest, in Edo state. The sanctuary policy may be one of the last hopes for preserving an invaluable gene pool of flora and fauna in the face of the ravages of timber merchants, farmers and hunters.

Nigeria's southern states were once covered by rain forest. Fifty years of uncontrolled exploitation, rapid population growth and land pressure have taken a devastating toll on thousands of square kilometres of primary forest. According to estimates, only 5 per cent of the original rain forest cover is left today. The last 15 per cent disappeared in the past 15 years. Many species of flora and fauna, perhaps vital to medical research, were destroyed before they could be discovered.

About 150km south of the Okumu forest, in the timber town of Sapele, the evidence of continued wanton destruction is starkly apparent. Along the lush banks of the Jemeson river, hundreds of small saw millers, who account for an estimated 90 per cent of total timber products, have set up operations in corrugated tin shacks. In the water, hundreds of tropical hardwood logs, tied together by rope and chains, have been floated down river.

According to a senior executive of African Timber and Plywood Company, a division of United Africa Company (UAC), at least 40-50 per cent of the small saw millers' throughput is illegally logged.

"We only take trees with a girth of more than 1.3 metres," said the executive. "This gives the forest a chance to partially regenerate. But the illegal loggers come in after us and cut down trees with much smaller girths."

Picture: Ashley Ashwood

White-throated monkey: found only in Nigeria

A further problem is that government concessions are granted on a maximum period of between five and 10 years – too short to encourage the operators to have a sustainable logging strategy which would allow the forest to recover. Many concessions were also granted, under the regime of former President Shehu Shagari, to little-known operators without a proper analysis of their economic impact.

Reports from Sapele and Warri also suggest that, in spite of a government ban on timber exports, logs and sawn timber continue to leave the country illegally.

Efforts by the big timber companies, such as A T & P and Piedmont Timber, to switch their raw material source to plantation forests such as Gmalina have little impact on deforestation. Plans to start regeneration projects are costly and unlikely to come into effect without significant funds from foreign donors.

"The real problem is the massive, seemingly unstoppable population explosion and the complete inability of the government to police the controls it has established," says one environmentalist. "Its a very bleak picture for the future of the environment."

The continuing destruction of the rain forests of southern Nigeria has already had serious effects on severe soil erosion – common in the southern states of Edo, Anambra, Imo and Abia – and to the silting of rivers, which threatens Nigeria's unique mangrove swamps with their rich ecosystem and fish-breeding potential. The deforestation has also had unquantifiable effects on the threat to the ozone layer and on biological diversity.

"In Nigeria now, the situation with rain forests is a stop-gap backs-against-the-wall conservation effort," says Mr Philip Hall of the Nigerian Conservation Foundation. "We have to realise that there is no such thing as successful sustainable managed forestry. It has not yet been demonstrated anywhere."

Mr Hall believes the remedy lies in conservation efforts which compensate farmers in the surrounding areas, in return for denying them the exploitation of the rain forest. In Okumu and Oban Hills, in eastern Nigeria's Cross River state, the NCF is pioneering agricultural projects such as bee-keeping and fish-farming for the local residents, as alternatives to logging and hunting.

Destruction of the rain forests is one of the many severe environmental problems facing Nigeria and its population of 110m, which almost tripled between 1963 and 1991 and is still growing at an estimated 3.4 per cent a year. In the arid savannahs of the north and middle-belt zones, rapid deforestation for firewood and overgrazing is already causing desertification, and could lead to an energy crisis.

A recent World Bank report said Nigeria was losing $5bn a year as a result of environmental degradation caused by soil damage, water contamination, deforestation, desertification, flooding, gully and coastal erosion, inefficient sewerage, water hyacinth and fishery and wildlife destruction.

The recent establishment of a Federal Environmental Protection Agency and a National Resources Conservation Council are steps in the right direction. But time is running out.

"The government must take more radical and politically difficult decisions fast and enforce them rigidly," said Mr Hall. "Otherwise a major, irreversible environmental crisis is just around the corner."

Lack of funds and international dealers are destroying a remarkable cultural heritage

A national treasure plundered

SADLY for Nigeria, her remarkable cultural heritage is being traded in the markets of Amsterdam, Paris and New York.

A visit to the National Museum in Lagos provides an eye-opener on the treasures Nigeria has to offer. The Nok terracottas from Zaria province, dating back to the period 900BC-200AD, are the oldest pieces so far discovered. The collection of elaborate Igbo-Ukwu bronze artefacts, discovered in Anambra state, come from the 9th-10th centuries and the fine terracotta busts from Ife, the city state of the Yoruba, are from the 11th-15th centuries. Probably the best known pieces are the Benin bronzes, which depict life at the Benin court from the arrival of the Portuguese in the 15th century to 1897, when a British force sacked Benin city.

As Professor Ade Obayemi, former director-general of the National Commission for Museums and Monuments (NCMM), explains: "We have to battle against internationally financed speculators and dealers. As soon as you make an announcement of a find, the places are cleaned out." The thieves often conduct their own digs and, as Professor Obayemi admits, are "well connected with the police and security systems".

In many ways, the superb quality of Nigerian antiquities is their undoing. In terms of monetary value, a Benin bronze head was sold at auction in London by Christie's in 1989 for £1.2m. The provenance of pieces, which appear at auction, usually dates back to the colonial period, and auctioneers say they are reluctant to accept pieces which may have more recently been stolen.

For the modern-day smuggler, the market is made up of a network of private dealers and collectors whose financial muscle far exceeds that of the NCMM. The smuggler is aided by the failure of some countries, notably the UK, to sign Unesco agreements banning the illegal trade in antiquities.

However, the NCMM has scored some successes. In 1987, the museum in the city of Jos

Jemma head: best known of all Nok terracottas

was raided and a Benin bronze head, originally taken by the British and returned at independence, was again stolen. In December 1990, it turned up at the Rudolf Mangisch gallery in Switzerland and has since been repatriated to Nigeria. However, the cost of guaranteeing security for the piece in Jos museum is prohibitive and the head was placed in the NCMM vaults, out of public view.

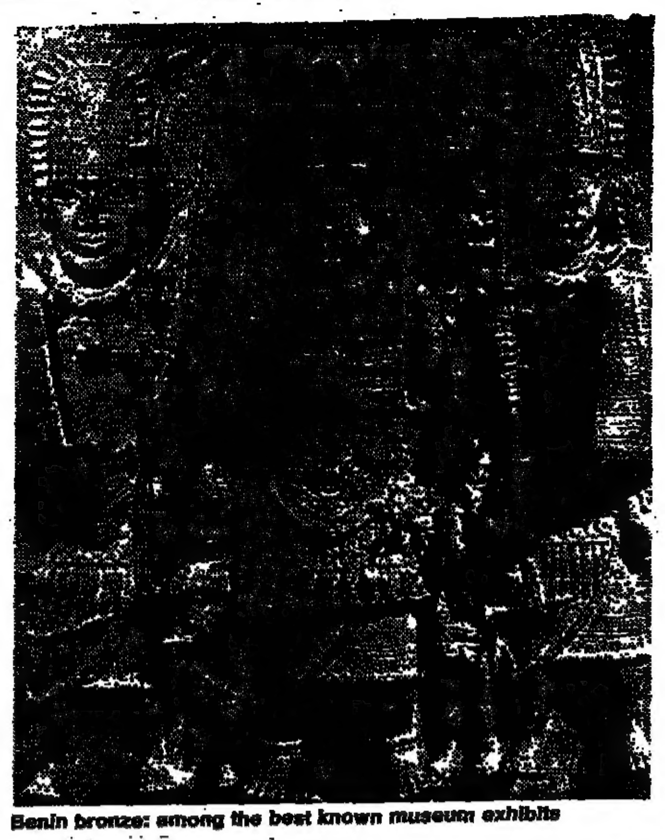
Inadequate funding of the NCMM is probably as great a threat to Nigerian cultural heritage as the international dealers. The entrance fee to the Lagos museum is all of one naira – a US nickel (five cents). A look at the exhibits immediately reveals some of the problems to be faced. Litmus humidity indicators are placed in each cabinet with the words "examine exhibit if pink" – indicating excess humidity. Nearly all the indicators are pink, and have been for some time. The present director of Museum and Monuments, Dr C.K. Gonyok, is acutely aware of the problem: "We don't have the laboratories, chemicals, specialised pins and microscopes to take adequate care of these works," he explained to a Nigerian newspaper which had expressed its concern. While the exhibition at the National Museum is magnificent, it is also permanent. Lack of money keeps more than 100,000 other pieces in the vaults.

The worst effects of underfunding can be seen at Nigeria's historic monuments. The ancient city wall of Kano, once 15 metres high, can now be stepped over and the walls of Zaria and Benin are also threatened. While the cost of reconstruction is enormous, the federal budget for maintenance and rehabilitation of national monuments has been derisory – in 1987, just N3,000.

More recent buildings, such as the 19th century Brazilian-style houses built in south-west Nigeria by emancipated slaves returning to Nigeria from Brazil, are also being destroyed. Preservation orders are often ignored by the owners of the buildings, who prefer to capitalise on the value of the land for development. The nation's architectural heritage is fast being replaced by western-influenced high-rise steel and glass blocks. The protruding exhaust pipes of electric generators are often the only architectural admission to the Nigerian context.

An adequate response from the government is essential, as is public confidence that the government is sincere in its policy towards the nation's heritage. As well as the vast public collection of antiquities, some of the finest examples are those owned privately by Nigerians. Many owners want to open private museums, but are restrained through fear that (in spite of assurances to the contrary) once exhibited the items will be declared public property. They also doubt the security of NCMM vaults. One collector admits that "the risk is sufficient for me even to keep some pieces abroad. It's a dilemma similar to the Elgin Marbles; under present conditions, where will these precious items be most secure?"

Oni brass figure



Benin bronze: among the best known museum exhibits

Until people trust government policy, funding for the NCMM is improved, and the international community recognises the need to protect Nigeria's cultural heritage, the future will remain bleak. The deterioration and destruction of national monuments will continue. And Nigerian antiquities will continue to become the property of international collectors, their status degraded to that of expensive objets d'art to be displayed in the living-rooms of Europe and America.

William Keeling and Michael Holman

Julian Ozanne investigates the 'appalling' crisis in higher education

Learning lessons the hard way

IN THE libraries of Nigeria's universities most foreign periodicals stop dead in the early 1980s. When the money ran out the subscriptions of all but the most essential were cancelled. Few new books have been brought from abroad in the past 10 years.

At Ibadan University, the oldest in Nigeria, a display in the library shows mutilated books – partly, academics say, a result of the desperation of students hunting critically short reading materials. The number of foreign medical journals purchased has been slashed from 350 to 20-25.

On campuses across the country rooms made for two people are crammed with four times that number.

Medical, science and technology faculties are equipped with outdated equipment, much of which has broken down because of a lack of spare parts. Chemistry departments are even short of reagents.

Many departments have also experienced a brain drain, especially at the senior level in medicine, science and literature, as Nigeria's academics have headed overseas, particularly to the Middle East and the US, in search of better pay and conditions. At least $120m of unfinished projects have been abandoned until better days.

A recent report by a government appointed commission into higher education under Chief Gray Longe says: "During their visits to the institutions, the commission was appalled by the physical conditions of most of them."

The origins of the crisis lie in an unplanned and ad hoc expansion in universities and enrolments which grew faster than anywhere else in Africa, followed shortly afterwards by a severe lack of funds caused by the fall in international oil prices.

Between 1972 and 1982, student enrolment in universities increased almost fivefold from nearly 21,000 to nearly 98,000. By 1990, the figure had increased to 180,000 students in 31 institutions and graduate unemployment was rising dramatically as universities failed to match manpower needs. The rapid growth in the Nigerian university system took place with little regard to costs and with particularly high proportions of expenditure devoted to administration (currently more than 50 per cent of recurrent expenditure) and post-graduate programmes.

According to a World Bank report, recurrent expenditure per student fell by 38 per cent between 1982 and 1986 alone.

Devaluation of the naira throughout the 1980s has had a particularly severe effect on the ability of universities to pay expatriate academics and to buy books, spare parts and western technology. According to one educationalist, the naira cost of an imported book today is at least 25 times what it was in 1981.

"We have been in a severe crisis for the past decade and inevitably there has been a drop in the quality of higher education," said Professor Ayo Banjo, the former chairman of the Committee of Vice-Chancellors.

"There must be a restriction on the numbers of students but this is not what the politicians want to hear," he says.

Combating costs, restructuring the expenditure priorities and limiting further expansion of enrolment and institutions have been identified as the critical factors for the development of higher education in Nigeria.

Some economists also say the government needs to reorientate its budgetary expenditures away from defence spending and questionable large projects to education and health.

Within the education budget, a greater proportion of resources should be devoted to the 13.5m primary school students and the 4m secondary education students.

In its recommendations, the Longe Akinkube Commission called for the declaration of a 10-year period of emergency to restore higher education, a freeze on new university establishment at least until 2000, the development of an open university and distance learning, the establishment of a higher education fund, cost reduction and prudent management and a minimum of 15 per cent of budgetary expenditure to be devoted to education. (In 1988 the Federal government only devoted 3.7 per cent of total budget directly to the sector.)

Some steps have already been taken by the government, including much greater cost recovery measures. Students in Nigeria now pay for their meals and contribute N90 a year for accommodation – a sum which most economists say needs to be raised dramatically.

But much greater reforms will have to be undertaken to try to restore standards and rehabilitate the decimated infrastructure. "Universities are at a key stage," says the World Bank. "Either they can cling to history which no longer exists and . . . face a drastic fall in the quality and effectiveness of education they provide or they can carry out a major reform."

Among the reforms agreed by the Federal government are deregulation of postgraduate fees for full cost recovery; reduction of the student lodging element in the government block grant; increased level of student loans; serious cuts in administrative staff and a maximum ceiling of 60 per cent of the block grant to be devoted to salaries by 1994-95.

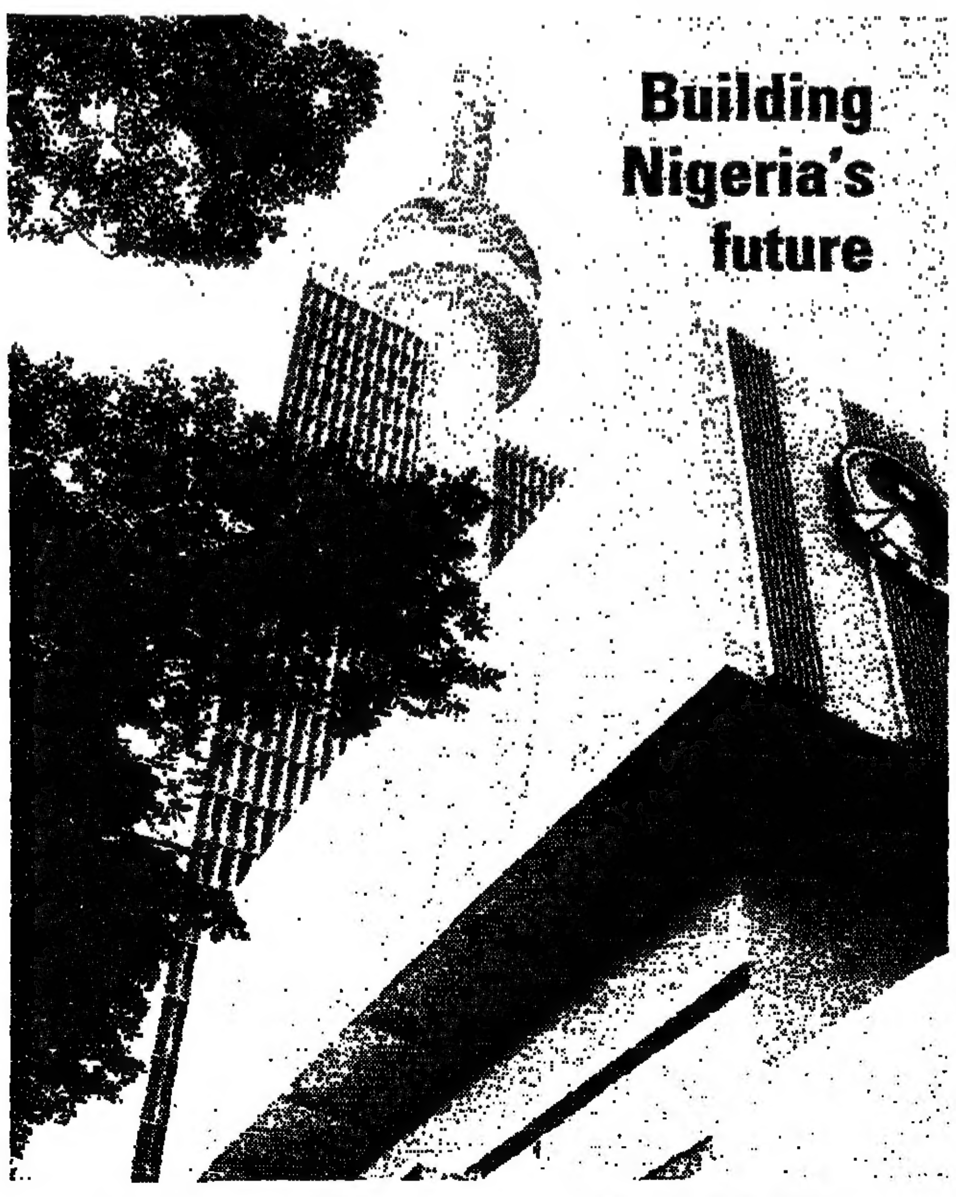
However, there is a widespread acceptance that there is little hope for much more resources to be provided by Federal government which must concentrate on the serious crisis in the primary education sector.

To aid the cash-strapped university sector, the Bank has approved a $116.5m loan to stimulate the search for cost reduction measures in universities.

The loan will be made available for book and equipment purchases and to supplement expatriate salaries, especially in science and technology. The loan is expected to provide about 17 per cent of total expenditure available over the next four years.

To qualify for the access to the funds each university must meet eligibility criteria, spread over three years, which include staff reduction, course rationalisation, increased self-financing at hostels and increased revenues from non-government sources such as consultancy services.

The Bank loan and greater cost recovery will provide some financial relief but unless the Federal government resists political pressures by the states to create new institutions, which will almost certainly increase under civilian rule, and puts some limitation on the amount of new enrolments, further decline in standards will be inevitable.



Michael Holman looks at the political scene in the run-up to the elections

Will the soldiers return to barracks?

A roadside billboard offers advice to Nigeria's voters

Picture: Ashley Ashwood

ANY concern that Nigeria's transition to civilian rule is going badly tends to be tempered by astonishment that it is going at all.

Many Nigerians doubted the soldiers' promise to return to the barracks by the end of 1992. Indeed, some still wonder if General Babangida will find a way of staying on. But, as the president observed in his New Year address, "events so far have proved the cynics wrong".

If the election timetable is followed, presidential primaries begin in May. National assembly elections take place in November, followed by the presidential poll on December 5. On January 2, 1993, General Babangida presides over a formal handover and Africa's most populous nation, under military rule for 22 of the years since independence in 1960, will become a democracy.

It is perhaps not surprising that concern about the nature of the transition is usually expressed with caution or circumspection.

Decree 19 makes it a serious offence, punishable by a five-year jail sentence, to oppose the transition programme. This has not deterred all the critics. Some voices have been raised – notably from the Civil Liberties Organisation and the Committee for the Defence of Human Rights, both Lagos-based, and there have been some outspoken commentaries in the Nigerian press.

They have had targets aplenty, for the transition has been flawed from early on.

In 1987, thousands of former politicians and government office holders were banned from politics, in the hope of creating a "new breed" of legislators unsullied by the corrupt, pork-barrel and outright vote buying that had characterised Nigerian politics.

Later in the year, the government decided that it would recognise only two political parties, in an attempt to prevent the resurgence of parties which depended heavily on an ethnic base – Hausa-Fulani, Yoruba or Ibo.

In October 1989, the government turned down all 13 organisations applying for recognition, on the grounds that "old lines of cleavage – ethnic, geo-political, religious and class – surfaced in bold relief", as President Babangida put it.

Instead, government presided over the creation of two new parties – the Social Democratic Party (SDP) "a little to the left", and the National Republican Convention (NRC), "a little to the right."

Baba Gana Kingibe, an articulate former ambassador from Borno, SDP chairman, and Chief Tom Ikimi, a Lagos-based architect who heads the NRC, do their best to make this distinction apparent. Yet the manifestos of the two parties, drawn up by government officials, are almost identical.

Both support the structural adjustment programme – although few candidates for any office, from either party, can bring themselves to say so on the hustings. Both propose pressing ahead with the Ajaokuta steel project, a multi-billion dollar white elephant.

Both advocate self-sufficiency in agriculture. The NRC offers free primary and secondary education, the SDP says it is committed "ultimately" to free education at all levels.

The result is that Nigeria's election campaigns so far have had little if any ideological debate.

There are no substantial policy differences, nor are there clear regional or religious boundaries between the NRC and SDP. Although sometimes labelled "north and Moslem" – the NRC – and "south and Christian" – the SDP – the results of the gubernatorial election show how misleading this would be. Lagos, for example, would have been a comfortable win for the SDP had this been the case.

It would be fair to say that the NRC has a northern slant, its opponents a southern bias. But to win the presidency, both parties must demonstrate countrywide support: present rules demand that the successful candidate requires not simply *a majority of the vote, but* 25 per cent of the poll in two thirds of the states.

Government officials maintain that this clause (which applied in the 1979 and 1983 presidential elections), coupled with the imposed two-party system, has helped break the traditional mould of Nigerian politics.

This seems optimistic. "Ironically, the coalitions and alliances formed under the party umbrellas are influenced by the very factors – including hidden loyalties to old parties – which disqualified the 13 political organisations in 1989," *notes a Kaduna lawyer.*

Recent developments have further undermined the credibility of the process. Government officials insist that the only way to prevent electoral fraud is to continue with the open ballot system (tried and abandoned by Kenya) under which voters line up for counting in front of a poster of their favoured candidate.

Nor was the credibility of the process enhanced last *December, when President* Babangida lifted the ban on former politicians. Not because it had failed, he said, but because "the new leaders had adequately adapted to the *political setting and the parties* had been adequately institutionalised".

Many Nigerians believe differently: "The banned politicians simply could not be kept out of the arena," says one "new breed" politician. "They have the money, influence, and experience – better have them in the open than behind the scenes."

Why, then does he take part at all? His *explanation* probably reflects the views of many participants: "I know the transition is flawed," he explains, "and I know it could fail. But if I and others like me don't work for its success, our fears could become self-fulfilling prophecies."

It is from the ranks of the "old breed" that most of the front runners for the presidency have so far emerged. Of the dozen or more NRC candi*dates so far declared*, three are singled out by a senior northerner who will be involved the selection process: Umaru Shinkafi, former internal affairs minister and head of intelligence during the 1979-83 civilian government, Dr Lema Jibrilu, a prominent industrialist, and Adamu Ciroma, a widely respected former Central Bank governor and ex-minister. Still waiting in the wings is Shehu Musa, former secretary to the 1979-83 Federal Government who was in charge of last year's national census.

"I would tip Ciroma," says one NRC stalwart, "but he may *have offended the army*" – a reference to some trenchant comments on the soldiers' shortcomings. No fewer than 38 (at last count) presidential hopefuls have thrown their hats in the presidential ring. Among those leading the field is Chief Olu Falae, former cabinet secretary and ex-finance minister in the administration, whose close involvement with the unpopular economic reform programme may well prove an electoral liability.

Retired Major-General Shehu Yar'adua, an influential Kaduna based businessman, may not win the nomination, but is seen as one of the kingmakers. But just as Shehu Shagari emerged as a compromise candidate in 1979, so it might again prove with the current favourites for office. "The trouble is," said one retired politician, reviewing a list of frontrunners, "those who are capa*ble may have too many* enemies, and those with few enemies are not up to the job."

Election timetable

May 2 – phased presidential primaries begin, starting in Borno, Abia, Katsina and Delta states.
May 9 – Oyo, Jigawa, Edo, Sokoto, Anambra
May 16 – Osun, Yobe, Imo, Benue
May 23 – Kogi, Lagos, Adamawa, *Cross River*, Plateau
May 30 – Rivers, Kebbi, Enugu, Bauchi, Ondo
June 6 – Taraba, Akwa-Ibom, Niger, Ogun, Kano and the Federal Capital Territory of Abuja.
November 7 – National Assembly elections
December 5 – Presidential election.

State assembly election results
Abia: NRC 25, SDP 9
Adamawa: NRC 18, SDP 14
Anambra: NRC 14, SDP 16
Akwa-Ibom: NRC 29, SDP 19
Bauchi: NRC 38, SDP 6
Benue: NRC 14, SDP 22
Borno: NRC 15, SDP 27
Cross River: NRC 13, SDP 15
Delta: NRC 14, SDP 22
Edo: NRC 10, SDP 17
Enugu: NRC 19 SDP 19
Imo: NRC 25, SDP 17
Jigawa: NRC 10, SDP 32
Kaduna: NRC 15, SDP 11
Kano: NRC 35, SDP 16
Katsina: NRC 18, SDP 30
Kebbi: NRC 18, SDP 4
Kogi: NRC 22, SDP 10
Kwara: NRC 2, SDP 22
Lagos: NRC 4, SDP 26
Niger: NRC 26, SDP 12
Ogun: NRC 1, SDP 29
Ondo: NRC 6, SDP 45
Osun: NRC 4, SDP 42
Oyo: NRC 13, SDP 37
Plateau: NRC 11, SDP 35
Rivers: NRC 29, SDP 19
Sokoto: NRC 45, SDP 3
Taraba: NRC 12, SDP 12
Yobe: NRC 6, SDP 18

State governors
Abia: Dr Ogbonnaya Onu* (NRC); Adamawa: Alhaji Sale Michika (NRC); Anambra: Dr Chukwuemeka Ezeifeo (SDP); Akwa-Ibom: Chie Akpan Isemin (NRC); Bauchi: Alhaji Dahiru Mohammed (NRC); Benue: Rev Moses Adasu (SDP); Borno: Maina Ma'aji Lawan (SDP); Cross River: Clement Ebri (NRC); Delta: Chief Alex Ibru (SDP); Edo: Chief John Oyegun* (SDP); Enugu: Dr Okey Nwodo (NRC); Imo: Chief Evans Enwerem (NRC); Jigawa: Alhaji Sa'ad Birnin Kudu* (SDP); Kaduna: Alhaji *Mohammed Dabo Lere* (NRC); Kano: Alhaji Kabiru Gaya (???); Katsina: Alhaji Saidu Barda (NRC); Kebbi: Alhaji Abubakar Musa (NRC); Kogi: Alhaji Abubakar Audu (NRC); Kwara: Alhaji Mohammed Shaaba (SDP); Lagos: Sir Michael Otedola (NRC)

* Election nullified by state election tribunal, but candidate remains in office pending appeal.

Picture: Ashley Ashwood

Fishing in Borno state: caught in the census net

Census may spring surprise

Up to 30m may not exist

NIGERIANS are about to hear just how many of them there are. Prepare for a surprise, say government officials, who will soon release the first results of last November's national census. "Africa's most populous nation" may well have far fewer than the 110m to 120m generally estimated – nearer to 90m, rumour has it.

Nigerians may react with equanimity to this revelation. What they particularly wish to know is where they all live, for the 30 states' share of Federal government revenue is partly determined by population.

"People are aware that they are going to gain more from the central purse by falsifying the head count, and they do just that," commented the weekly magazine *West Africa*. How many live where, however, may not become public information for many months, and the reception accorded those details will provide the most difficult test of the census.

In the meantime, it seems, Nigerians will have to settle for a basic population count. That in itself is no mean *achievement, given the contro*versies of the past. There have been 11 attempts at an acceptable national census since 1863 and on each occasion the exercise has ended in failure, the journal noted.

The 1952 census, which put the total population at 33m, was believed to have been an underestimate because it was widely assumed the British were counting heads to increase revenues. In 1962, the results were not published because leaks led to political controversy.

In the 1963 count the then Western and Eastern regions alleged that the Northern region had inflated its own figures to ensure the federal dominance of the Northern People's Congress. The north responded angrily: under-populated areas in the south had been overcounted to give the southern regions an unfair share of federal revenue, it alleged.

Ten years later General Yakubu Gowon's military government had a go – and failed. *Nigeria by then had been* divided into 12 states, and the count for the six northern states – 51.4m – hugely outnumbered the six southern states' 28.4m.

It was decided that since the 1963 census had produced the least unacceptable results it *should provide the base for* subsequent population figures which have assumed a growth rate ranging from 2.5 to over 3 per cent.

The man in the hot seat this time round has been Alhaji Shehu Musa, a former secretary to the Federal government regarded as a potential presidential candidate. His job as chairman of the National Population Commission has been easier than that of his prede*cessors. The government* defused potential religious and ethnic tensions by omitting questions on these subjects from the questionnaire.

It was nevertheless a monumental exercise involving ¼m staff during the three day exercise across 225,000 enumeration areas.

Michael Holman

BUSINESS VISITOR'S GUIDE

If it's got to be Abuja . . .

Picture: Ashley Ashwood

Abuja: the new administrative federal capital of Nigeria

LAST YEAR, shortly before Christmas, Nigeria fulfilled a 16-year-old dream that had been cherished successively by six governments and four presidents.

On December 12 President Ibrahim Babangida cleared out of Dodan Barracks in Lagos and took up his residence in the Presidential Palace in Abuja.

His move marked the official, and many say irrevocable, inauguration of Abuja as the new administrative federal capital of Nigeria.

However, a shortage of housing and office space may hold back the pace at which Abuja transforms itself into a fully-fledged capital.

Foreign embassies remain in Lagos for the time being, *though many plan to staff* offices in Abuja by the end of this year.

The British High Commission has already established a rudimentary office in the Sheraton Hotel where British businessmen can get advice.

While most banks and corporate head offices will stay in Lagos for the next 12 months, Abuja will increasingly become the place that foreign businessmen have to visit to see officials.

Getting there

Driving is still recommended by many old Nigeria hands as an alternative to erratic and often frustrating experiences when catching flights. The drive from Lagos takes eight hours on fairly good roads. *ADC, Concord, Okada and* Nigerian Airways all operate daily flights between Lagos and Abuja and the new capital is also served by airlines from most of Nigeria's other main urban centres.

If you are flying from Lagos it is not advisable to try to reserve or buy your ticket beforehand. Go to the airport – beware of touts, if possible – and confirm that the aircraft is actually going to fly and that you have a *definite confirmed* seat before you buy your ticket. Friday can be a hectic day to fly out of Abuja as many officials head home to Lagos for the weekend.

Some useful numbers

Telephone code for Abuja is 09

Hotels: Nicon Noga Hilton Hotel 523 1811-28, tlx: 71503/4 Fax: 523 2417
Sheraton Hotel and Towers: 523 0225, tlx: 91520
Agura Hotel 234 1753 tlx: 71496.
Ministries:
Agriculture: 234 1931, 234 1458/2405
Federal capital territory: 234 1295, 234 1325
Internal Affairs: 234 1145, 234 1292
External Affairs: 523 0208, 523 0566
Trade & Tourism: 234 1884, 234 1490
Water Resources: 234 1572, 234 1572
Industries: 234 1865/1186, 234 1690
Also:
Chamber of Commerce: 882 1555
Central Bank, Abuja Office: 234 1592/2614.

Julian Ozanne

PROFILE: General Ibrahim Babangida

An enigmatic survivor

Picture: Tony Andrews

General Ibrahim Babangida: in one of Africa's toughest jobs

THE combination of an engaging but enigmatic personality, a soldier's ruthlessness and a politician's adaptability, have kept General Ibrahim Babangida in one of Africa's toughest jobs for nearly seven years. It is too soon for a definitive assessment of the man who seized power in a palace coup in August 1985.

But it is difficult to avoid the conclusion that he and his government have fallen far short of the admittedly ambitious objectives the president set himself not long after taking office: the inculcation of a "new socio-political order" and the implementation of a structural adjustment programme that would transform the economy. Corruption remains endemic, an attempt to create a so-called "new breed" of politicians has failed, and the adjustment programme is in serious difficulties.

The creation of nine new states last year seems ill-advised. The move may have some benefits: it continues the fragmentation of ethnic and regional blocks and further blurs the potentially dangerous north-south divide. But the country cannot afford nine new state administrations and the necessary infrastructure. To many observers, the decision smacked of patronage.

In one respect, at least, few Nigerians could be better equipped to lead a country with such a turbulent history. No-one knows more about coups than the president, and few officers have enjoyed as much respect from peers and other ranks alike.

Born in 1941 in Minna, President Babangida joined the army as an officer cadet in 1963. After graduating from the Military Training College, Kaduna, he went on to attend military courses in India and Britain.

But it was in the Biafran civil war in the 1970s that he won his spurs and a reputation as a "soldier's soldier".

It is said that he has played a key role in most of Nigeria's coups. Certainly he had an important part in ending the coup attempt in February 1976 in which the head of state, Gen Murtala Muhammed, was assassinated. He was also prominent in the overthrow of President Shehu Shagari at the end of 1983; within a year he was preparing to take office himself.

His deft political footwork and resilience under pressure won him the nickname "Maradona of Nigerian politics". Time and again he has emerged from the fray with an unexpected goal, or at least still on his feet after some rugged tackle. Perhaps the best example was the debate in 1986 on the merits of seeking an International Monetary Fund (IMF) loan.

The country vigorously opposed it; the president adroitly treated this as support for an economic reform package as stringent as the Fund would have demanded; the Fund then endorsed the reforms, thus paving the way to external debt rescheduling. The president kept faith with the electorate by not borrowing from the Fund, although entitled to do so ... and all parties were satisfied.

Sometimes he scored an own goal. The administration remains saddled with what most observers believe was a serious misjudgment: the decision in August 1985 to change from observer status to full membership of the Organisation of Islamic States which had the effect of exacerbating religious tensions between the country's Moslem and Christian communities.

But it is in recent years that the president seems to have lost the country's respect and affection which partly inspired the Maradona tag, now seldom used.

The imposition of a two-party system and the arbitrary decrees which regulate the transition to civilian rule (discussed elsewhere), the other abuses of human rights documented in a report last year by *Africa Watch*, an independent monitor of civil liberties on the continent, and pervasive corruption, have eroded his popularity.

The process has been hastened by the prominent role of his wife, Maryam, founder and patron of the Better Life for Rural Women programme. Its aims may be admirable, but its budget, accounting and evaluation procedures are not entirely clear. It has won the enthusiastic support of wives of state governors and other dignitaries, prompting the suggestion from Nigerian sceptics that the programme should be renamed "Better Life for Ruling Women".

But President Babangida nevertheless retains a political flair that can take everybody by surprise, and retrieve a seemingly hopeless situation. This flair was dramatically demonstrated earlier this month: he bit the exchange rate bullet, bringing within reach a vital IMF agreement which many observers thought might prove impossible. After nearly two days of consultations at the presidency in Abuja, the new federal capital, Mr Abdulkadir Ahmed, governor of the Central Bank, was authorised to make a nationally televised broadcast announcing the float of the naira.

It stunned Nigerians. So much so that, far from outrage as the official rate of the national currency fell from 10.5 to 18 to the dollar, the news was received with what seemed like bewildered acquiescence. Equally astonished – and also mightily relieved – were the diplomatic community and western creditors.

The man many were starting to write off had dramatically come good.

Michael Holman

Michael Holman looks at a World Bank report on the oil 'windfall'

'Inconsistencies' in state funds

IT HAS become known as the Gulf war "windfall", and questions about what happened to it go to the heart of Nigerian politics and economic management.

The "windfall" – Nigeria's higher-than-expected export earnings in 1990, after world oil prices rose amid fears that the conflict would disrupt supplies – is a sensitive subject. The Financial Times's correspondent in Lagos was deported last year after reporting that economists working for donor agencies calculated that some $3bn in oil receipts during the period July 1990 and May 1991 were not accounted for.

Reacting to the allegations, the federal government said "categorically that the estimates of 'oil windfall' contained in (the FT) story are without foundation".

The FT's reports were designed "to deliberately mislead the public, including our development partners" the statement said. "The federal government remains undaunted and unshaken in her determination to run an open and responsible government," it concluded.

The FT has since obtained a copy of an unpublished World Bank summary of the findings of its report on public expenditure management in Nigeria. The report, researched in early 1991, makes clear the Bank's concern about how the windfall was disbursed.

"Oil receipts were some $3bn higher in 1990 than the Bank had been projecting at the beginning of the year," says the report.

The transition to civilian rule added to the pressures on government to spend and "led to a breakdown in fiscal and monetary discipline during 1990 ... not only characterised by additional spending and monetary expansion, but also by a major surge in expenditures bypassing budgetary mechanisms of expenditure authorisation and control."

The report continues: "The practice of spending oil revenues through dedication accounts and other devices outside the purview of statutory budgetary and accounting controls has re-emerged on a large scale.

"In addition, significant domestic currency spending appears to have occurred without any apparent budgetary authorisations," says the report. In an analysis that raises serious questions about government management, the World Bank study makes these further points:

■ "Some $1.5bn equivalent of revenues was allocated under ill-defined and poorly documented procedures outside of the usual accounting framework";

■ There are "accounting inconsistencies" in the handling of crude oil revenues paid into the Federal Government Account, for distribution by the Federation Account Committee. "One such inconsistency is the direct payment for certain contracts from the offshore oil revenue accounts, and the diversion of the gross proceeds from fixed volumes of sales of Federation oil to special accounts for the use of the (state-owned) Nigerian National Petroleum Corporation – and perhaps other agencies – for certain project and other expenditures. Certain obligations also appear to be met by direct shipments of oil."

Under agreements with the IMF and the World Bank in 1986, says the report, "all but two of such 'dedication account' expenditures were supposed to be discontinued.

"However, Bank staff attempts to account for the proceeds from oil production in 1990 produced a shortfall of foreign exchange inflows reflected in the official Central Bank cashflow of around $2.1bn, of which only $0.6bn can be explained by the two continuing dedication accounts";

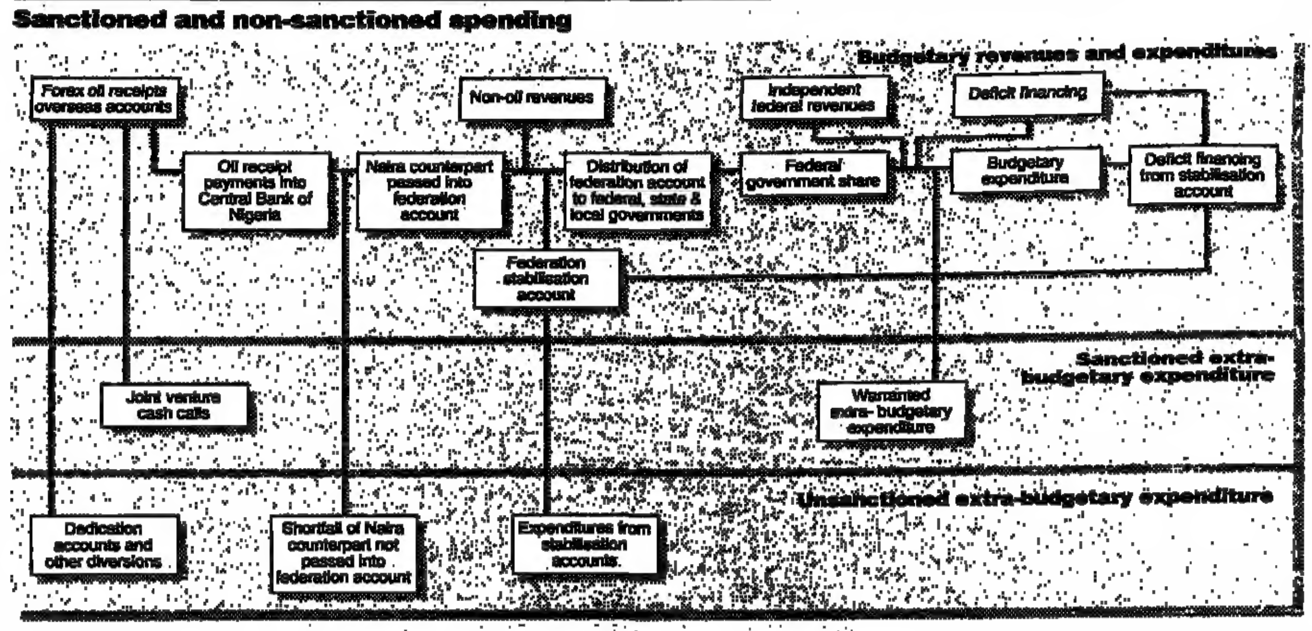
■ In addition, the report goes on, "there is evidence to suggest that some N5.6bn counterpart of around $0.5bn of foreign exchange oil receipts reported by the Central Bank did not pass to the Federation Account Committee for distribution."

■ "Transactions on the Federation Stabilisation Account for 1989 and 1990 suggest that non-budgetary expenditures of about N10bn have been financed out of these accounts." (Under an informal practice started in 1989 the Federation Account Committee has been depositing a portion of its revenues, including some of the "windfall receipts" into a "stabilisation" account. "The exact status of this account remains unclear," says the Bank report).

"These 'inconsistencies' are large," comments the Bank report: "To the extent that they represent actual expenditures, they imply spending outside normal accounting and budgetary mechanisms which exceeds total budgetary non-debt service spending of the Federal government in 1990."

The report's findings will, say diplomats, be taken into account when issues such as aid to Nigeria and debt rescheduling are under discussion. And it seems appropriate that Mr Barber Conable, then World Bank president, last year chose the new Nigerian capital of Abuja to warn: "Accountability, transparency, predictability (and) adherence to the rule of law" were fundamental to development.

Sanctioned and non-sanctioned spending



Source: World Bank